MIT CEEPR
Center for Energy and Environmental Policy Research

Research Commentary

Recognizing Third-Country Carbon Prices Under the European CBAM: Options to Close the Price Gap

Carolyn Fischer and Michael Mehling

JUNE 2026

CEEPR RC 2026-04

Research Commentary Series.

Since 1977, the Center for Energy and Environmental Policy Research (CEEPR) has been a focal point for research on energy and environmental policy at MIT. CEEPR promotes rigorous, objective research for improved decision making in government and the private sector, and secures the relevance of its work through close cooperation with industry partners from around the globe. Drawing on the unparalleled resources available at MIT, affiliated faculty and research staff as well as international research associates contribute to the empirical study of a wide range of policy issues related to energy supply, energy demand, and the environment.

As a Research Commentary, views expressed within are solely those of the authors. Interested parties may contact the authors directly for further feedback on their Commentaries.

MIT CEEPR
Center for Energy and Environmental Policy Research

RC-2026-04
Commentary

Recognizing Third-Country Carbon Prices Under the European CBAM: Options to Close the Price Gap

Carolyn Fischer and Michael Mehling*

Key Points

- Article 9 of the CBAM Regulation (Regulation 2023/956) allows importers to claim a reduction in CBAM certificate obligations if they can prove a carbon price was already paid in the country of origin. How this provision is implemented will determine whether the mechanism continues to catalyze carbon pricing abroad, arguably its most consequential climate impact.
- A working draft of the implementing regulation was released by the European Commission on 13 May 2026. It seeks to strike a balance between two competing aims: maintaining a stringent carbon price signal for products consumed in the EU that effectively levels the playing field between EU and foreign producers, and affording sufficient flexibility to respect third-country circumstances and avoid disproportionate implementation burdens.
- By design, the CBAM is not meant to be a revenue-raising mechanism, and rents accruing to the EU budget from imports originating in third countries sit uncomfortably with foundational principles of the Paris Agreement. Affording trade partners practical means to retain such rents domestically by closing the gap between their carbon price and the CBAM certificate price is therefore both politically and legally desirable.
- Three concrete options—credit purchases beyond domestic compliance, high nominal prices buffered by free allocation, and additional allowance purchases by exporters—could offer trade partners practical and context-appropriate means to close the gap to the CBAM certificate price without undermining the environmental integrity of the CBAM and its ability to incentivize carbon pricing systems abroad.

* The findings, interpretations, and conclusions expressed in this work are entirely those of the authors. They do not necessarily represent the views of the World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the governments they represent. The findings, interpretations, and conclusions expressed in this article are entirely those of the author(s). They do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

1 Unfinished Business: Accounting for Carbon Prices Paid Abroad

Of all the implementing acts required to operationalize the European Union's Carbon Border Adjustment Mechanism (CBAM), one has proven particularly challenging to finalize. Related to Article 9 of the CBAM Regulation, it specifies how a carbon price "effectively paid" in the country of origin can be deducted from the CBAM compliance obligation (European Union, 2023). Initially announced for the fourth quarter of 2025 and then deferred more than once, a working draft was eventually circulated by the Commission services on 13 May 2026 (European Commission, 2026a), offering the first concrete signal of how the European Commission proposes to operationalize Article 9 even as importers have already entered the definitive phase of the CBAM and started incurring quarterly purchase obligations.

The preceding delays should perhaps be unsurprising, given the significance of this implementing act, its complexity, and the broadly worded mandate in the parent regulation. Article 9 of the CBAM Regulation provides that "[a]n authorised CBAM declarant may claim in the CBAM declaration a reduction in the number of CBAM certificates to be surrendered in order to take into account the carbon price paid in the country of origin for the declared embedded emissions", with the qualification that the reduction may only be claimed where the carbon price has been "effectively paid" and net of any rebate or other form of compensation that would have lowered that price (European Union, 2023 Article 9). What constitutes a "carbon price" for these purposes is defined narrowly in Article 3(29), which captures only "the monetary amount paid in a third country, under a carbon emissions reduction scheme, in the form of a tax, levy or fee or in the form of emission allowances under a greenhouse gas emissions trading system, calculated on greenhouse gases covered by such a measure, and released during the production of goods."

Until recently, this language was widely read as confining recognition to explicit carbon prices imposed under compliance regimes—that is, carbon taxes and emissions trading systems—to the exclusion of project-based mechanisms such as carbon credits. In its August 2025 call for evidence, however, the European Commission already elicited divergent views, especially on the question of carbon credits (European Commission, 2025b, 2026b, p. 7). Subsequent legislative developments have revealed a growing divide on how accommodating the CBAM should be for different forms of carbon pricing. In its proposal of 17 December 2025 to amend the CBAM Regulation, for instance, the European Commission opened the door to recognizing carbon credits issued under Article 6 of the Paris Agreement, stating that the Union "may, in the context of the Implementing Regulation for accounting the carbon price paid abroad, consider the carbon credits under Article 6 of the Paris Agreement" and adding language empowering it "to regulate the conditions for deducting carbon credits under Article 6 of the Paris Agreement" (European Commission, 2025c Recital 21 and Article 9)[1]—a notable departure from the previously assumed scope of Article 3(29).

The Council of the European Union, in a compromise text circulated by the Cypriot presidency on 24 March 2026, appeared to endorse this possibility when it proposed to amend the language from "may" to "should be able to" and acknowledging in the explanatory memorandum that "most compliance schemes in third countries allow for at least part of the obligation to be met with the purchase of carbon credits, either on a domestic or international market" (Council of the European Union, 2026a). At the same time, it signaled that "only the actual price paid, based on certified evidence, could … be taken into account" and indicated that the forthcoming implementing act would set out "qualitative and quantitative criteria" to safeguard the integrity of the CBAM and ensure that any credits used for compliance "meet the highest internationally agreed standards", while ruling out "carbon credits purchased on a purely voluntarily basis".[2]

[1] A newly inserted Recital 21 would read: "To facilitate the application of Regulation (EU) 2023/956, the Union may in the context of the Implementing Regulation for accounting the carbon price paid abroad, consider the carbon credits under Article 6 of the Paris Agreement." Article 9(5) would have the following sentence added: "The Commission is also empowered to regulate the conditions for deducting carbon credits under Article 6 of the Paris Agreement."

[2] The presidency compromise text retains the Commission's proposed Recital 21, amending it slightly to read: "To facilitate the application of Regulation (EU) 2023/956, the Union should be able to in the context of the Implementing Regulation for accounting the carbon price paid abroad, consider the carbon credits under Article 6 of the Paris Agreement." It further retains the addition to Article 9(5).

By contrast, the rapporteur on the file in the European Parliament's Committee on the Environment, Climate and Food Safety (ENVI), Mohammed Chahim, declared discussion of international credit recognition "premature and counterproductive" in his draft report, citing concerns about price volatility and "variable environmental integrity" as flagged by the European Scientific Advisory Board on Climate Change, and proposing to altogether delete the relevant recital (European Parliament, 2026a, p. 28).[3] At the same time, he acknowledged that Europe could share an interest with Least Developed Countries (LDCs) in recognizing alternative forms of carbon pricing, but first called for "a thorough assessment … to evaluate the risks, data requirements, and broader implications" of such recognition.

Subsequent developments suggest the two institutions are converging. A later presidency compromise text of 29 April 2026 omitted mention of Article 6 of the Paris Agreement or international credits, merely referring to "carbon credits … allowed under a carbon emissions reduction scheme" (Council of the European Union, 2026b Recital 21). In a subsequent General Approach document of 29 May 2026, the Cypriot presidency deleted the recital on credits altogether (Council of the European Union, 2026c para. 7(a)). Similarly, amendments tabled in the ENVI Committee on 12 May 2026 confirm a broadly cross-partisan rejection of the recital on credits, with five separate deletion proposals (European Parliament, 2026b Amendments 121-125). Two alternative formulations are nonetheless notable—a proposal to recognize "dual carbon pricing schemes" combining a domestic carbon price with an export tax up to the EU ETS gap (ibid., Amendment 126), and a suggested amendment limiting recognition to instruments mirrored under the EU ETS in line with the symmetry principle (ibid., Amendment 127). For the time being, however, none of these signals prevents the Commission from exercising its delegated authority under Article 9 of the CBAM Regulation: the implementing act may proceed regardless, with the co-legislators' positions standing as guidance on legislative intent rather than as binding constraint.

Differing views on the scope of carbon price recognition and in particular the role of international credits are mirrored in the broader public debate. An academic report by Ely Sandler and Daniel Schrag formally introduced the idea of recognizing payments under Article 6 of the Paris Agreement at their monetary value rather than the emissions they represent, sidestepping difficult questions about additionality while offering exporting countries a way to retain revenue domestically (Sandler & Schrag, 2025). Project developers, understandably, have sided with this view, anticipating a new source of demand for credits amidst a contracting market, estimating annual demand in ITMOs worth up to €3 billion from the CBAM alone (Gualandi et al., 2026; Manuell, 2026). Progressive industry voices such as the Business for CBAM Coalition, meanwhile, have warned that allowing use of credits "would remove the incentive to decarbonise for non-EU countries", and fear negative spillovers into the forthcoming review of the EU Emissions Trading System (EU ETS) (Business for CBAM Coalition, n.d.)

With the release of the working draft on 13 May 2026, the European Commission has now signaled its preferred approach, largely confirming a narrow reading of Article 3(29), while opening up a limited window for the recognition of carbon credits. Three features stand out. First, the draft retains a strict equivalence requirement: only carbon prices paid under a tax, levy, or fee, or under a binding emissions trading system that "imposes compliance obligations on all operators active in the relevant sectors covered by that mechanism without discrimination", will qualify (European Commission, 2026a Recital 8) (European Commission, 2026a Recital 8). Second, where a third-country compliance scheme allows operators to discharge part of their obligation through the purchase of carbon credits, the price paid for those credits is recognized—with no additional EU-level criteria imposed for credits derived from domestic mitigation activities (ibid., Recital 12). Third, international credits are recognized only if authorized and issued under Article 6.2 or Article 6.4 of the Paris Agreement, and only up to 10% of the reported and confirmed emissions under the third-country mechanism (ibid., Recital 13, Section 3.3.4 of Annex I). The draft further clarifies that free allowances, baseline exemptions, and monetary refunds reduce the effective carbon price paid (ibid., Article 8(1)), while carving out an exception for revenues recycled into operator-specific decarbonization subsidies (ibid., Article 8(2)).

[3] The ENVI Committee's draft report deletes Recital 21 and deletes the proposed addition to Article 9(5) sentence empowering the European Commission to "to regulate the conditions for deducting carbon credits under Article 6 of the Paris Agreement."

While the draft has narrowed the range of plausible outcomes, important questions remain unresolved—not least how third countries might close the price gap to the EU ETS without compromising the integrity guardrails the draft seeks to put in place. Because the CBAM was conceived as a leakage safeguard rather than a revenue-raising instrument, there is a strong case for affording third countries the flexibility to close that gap through their own carbon pricing arrangements and thereby retain at home rents that would otherwise accrue to the EU budget. An implementing regulation that fails to satisfy the Council and the European Parliament risks stranding politically, however, while one that ignores the legitimate interest of third countries to retain revenue domestically could needlessly increase diplomatic and legal headwinds facing an already unpopular unilateral climate policy. A middle path therefore seems advisable and is, we argue here, available. Section 2 of this commentary sets out what is at stake in the design of the implementing rules; Section 3 makes the case for affording third countries flexibility to close the price gap while retaining revenue; Section 4 develops three concrete options for doing so, together with a targeted derogation for least developed countries; and Section 5 considers refinements to the draft implementing regulation that would give effect to these proposals.

2 The Stakes Are High: Why Article 9 Matters

Operational rules adopted under Article 9 of the CBAM Regulation will shape outcomes that extend well beyond the bilateral cost calculus between the EU and individual importers. First, getting Article 9 wrong threatens the credibility and environmental integrity of the CBAM itself and Europe's climate policy ambition more generally. Mentioned in the previous section, divergent views on the role of credits are at the center of such integrity concerns: no matter how rigorously the EU defines qualitative criteria for credits or anchors them in the "highest internationally agreed standards", the troubled legacy of international crediting remains difficult to escape, having shaped a deeply cautious approach to their use in European climate policy. Two decades of well-intentioned efforts to strengthen the governance of credits have been punctuated by recurring scandals and methodological challenges that have stubbornly resisted resolution (Lezak et al., 2026; Probst et al., 2024; Romm et al., 2025; all the way back to Wara, 2007); it would only be a matter of time before a CBAM-eligible project is exposed as falling short, with attendant reputational consequences for Europe's climate policy.

Concerns specific to Article 6 of the Paris Agreement reinforce these reservations. Unlike voluntary market units, an Internationally Transferred Mitigation Outcome (ITMO) requires the seller country to apply a corresponding adjustment to its Nationally Determined Contribution (NDC), formally deducting the transferred mitigation from its own progress. Yet a temporal and functional disconnect raises challenges for using such credits as a compliance alternative to annual CBAM obligations: authorizations and transfers are taking place now, while the NDC implementation periods to which corresponding adjustments apply do not close until 2030 or, in some cases, 2035. It cannot be verified until well after that date whether units authorized for transfer have actually been subjected to a corresponding adjustment. Moreover, corresponding adjustments help ensure accounting consistency and avoid double claiming, but they do not in themselves guarantee the ambition of host-country targets or the availability of surplus mitigation outcomes for transfer (Humphries et al., 2026). Recognition under Article 9 would have to be granted long before these procedural and substantive dimensions can be confirmed, justifying a conservative approach under the CBAM.[4]

Second, ill-considered flexibilities under Article 9 risk eroding what may already be the CBAM's most consequential climate impact: its ability to catalyze the diffusion of carbon pricing beyond Europe. Fostering the expansion of mandatory carbon pricing around the world is rightly seen as a central objective. Empirical research has documented an acceleration of carbon pricing among trade partners due to the CBAM, with several major emitters explicitly citing the CBAM as a principal driver (Clausing et al., 2024; Mehling et al., 2025; Otto, 2025). From the time the CBAM was first announced in 2019 (von der Leyen, 2020) to August 2025, the number of carbon pricing instruments implemented outside the EU

[4] Additionally, many countries do not have firm NDCs, but rather pledge vague reductions from an undetermined counterfactual, making credible application of corresponding adjustments difficult.

almost doubled from 32 to 57 (World Bank, 2025).[5] Countries with greater trade exposure to the CBAM have been significantly more likely to announce or adopt carbon pricing policies (Bahí et al., 2026), an effect separately estimated to result in significantly greater emission reductions than a business-as-usual counterfactual (Beaufils Timothé et al., 2026). This effect is also being acknowledged at the political level: in the European Commission's own words, the CBAM has been "a catalyst for the development of carbon pricing" abroad (European Commission, 2025a, p. 9), while the Council has affirmed "the importance of … the Carbon Border Adjustment Mechanism, in … supporting the global uptake of effective carbon pricing systems" (Council, 2026, p. 11).

Indeed, the asymmetry between the CBAM's direct and indirect environmental footprint is striking: based on its current scope, the CBAM itself only covers between 0.15% and 0.6% of global emissions through the imported goods to which it applies (Beaufils et al., 2023; World Bank, 2024); by contrast, potential emissions coverage from emerging carbon pricing systems in Brazil, India, Indonesia, Türkiye, and Vietnam—together with the extension of China's existing system to industrial emissions—stands to expand carbon pricing to a further 12.5% of global emissions, an order of magnitude higher than the CBAM alone (Mehling et al., 2025). As the EU's contribution to global greenhouse gas emissions—already under 6% (Crippa et al., 2025)—continues to diminish, this extraterritorial policy spillover, often ascribed to the so-called "Brussels Effect" (Bradford, 2020), represents an increasingly consequential lever to advance global decarbonization and reduce climate policy asymmetries around the world.

Affording excessive flexibility under Article 9 could erode this important spillover effect. If recognized in isolation rather than embedded within a domestic compliance regime, for instance, credits would provide a far cheaper alternative for Europe's competitors: foreign producers would only have to pay for emissions embedded in goods exported to the EU, which commonly represent only between 1-6 per cent of overall third-country output (Magacho et al., 2023). Political economy dynamics that have realigned domestic stakeholder support from opposition to facilitation of domestic carbon pricing—a spillover effect of border carbon adjustments already noted more than a decade ago (Helm et al., 2012)—could shift again, reverting to pre-CBAM conditions in which even extensive efforts to build domestic carbon pricing readiness frequently failed to overcome domestic political resistance (Mehling et al., 2025). Where governments are presently inclined to advance broader carbon pricing systems to retain rents domestically rather than see them accrue to the EU budget, a credit-based exit ramp could substantially reduce that pressure. As others have rightly argued, "[c]arbon credits should not become an alternative to compliance markets" (Bencini et al., 2026).

Third, and most importantly, the CBAM's stated leakage objective could itself be undermined (European Union, 2023 Article 1(1)). According to the CBAM Regulation, carbon leakage "occurs if, for reasons of costs related to climate policies, businesses in certain industry sectors or subsectors transfer production to other countries or imports from those countries replace equivalent products." Such leakage is driven by cost asymmetries across producers' overall production portfolios, not merely in respect of the goods exported to the EU. A carbon "price" diluted into a narrow compliance pathway covering only exports would fail to establish symmetry: even if marginal carbon costs are equalized for products entering the EU market, entry and exit decisions in the EU market, as well as competition in third markets, are determined by the average carbon cost facing producers. Accordingly, as long as foreign producers face materially lower average costs than their European counterparts, they will retain a structural advantage that can be leveraged to displace domestic production, thereby perpetuating the very leakage risk the instrument is meant to avert.

As proposed, the draft implementing regulation preempts much of this risk, and along all three dimensions just discussed. Against the threat to credibility and integrity, it confines recognition of international credits to those authorized and issued under Article 6.2 or Article 6.4 of the Paris Agreement and caps their contribution at 10% of the reported and confirmed emissions under the third-country mechanism (European Commission, 2026a Recital 13 and Annex I, Section 3.3.4), limiting the EU's exposure to the integrity failures that have repeatedly beset international crediting. Against the erosion of

[5] European Economic Area (EEA) countries and Switzerland are counted towards the EU, as their carbon pricing systems are linked to the EU ETS and these jurisdictions are thus exempt from the scope of the CBAM, see Article 2(6)(a) and Annex III of the CBAM Regulation (European Union, 2023).

the carbon pricing spillover, it conditions any recognition on the credits being used within a binding domestic carbon pricing instrument (ibid., Recital 12), so that credits can supplement, but never substitute for, a compliance carbon price, thereby preserving the political economy dynamics that have realigned domestic stakeholder support from opposition to facilitation of carbon pricing. And against the loss of effectiveness as a leakage safeguard, it requires that the underlying instrument "impose[] compliance obligations on all operators active in the relevant sectors covered by that mechanism without discrimination" (ibid., Recital 8), ensuring that the recognized price reflects a cost borne across a producer's output rather than one confined to its exports to the EU.

Taken together, these conditions go a considerable way toward reconciling the recognition of foreign carbon prices with the CBAM's environmental purpose. Yet stringency is not the only value at stake. A mechanism calibrated solely to guard against these risks, with no regard for the circumstances of the countries on which it bears, threatens to give rise to a different set of risks. Levied disproportionately on trade partners that have contributed least to the climate problem, and channeling revenue from South to North in apparent tension with the principle of common but differentiated responsibilities and the EU's own climate finance commitments, a CBAM perceived as indifferent to fairness invites resistance—in multilateral fora, in the court of diplomatic opinion, and possibly even through judicial challenges. As the next section argues, attending to these concerns is not a concession that weakens the instrument but a condition of its durability: it is what allows the CBAM to function less as a unilateral imposition than as a lever Europe can use to draw others toward higher ambition, safeguarding both the instrument itself and Europe's standing as a credible and constructive climate leader.

3 Closing the Price Gap: A Case for Flexibility

Indeed, blanket rejection of any flexibility would be short-sighted. As acknowledged by the Rapporteur in the European Parliament, compelling reasons support some degree of accommodation, particularly for developing economies. For one, expecting trade partners to match the EU ETS price in the short or medium term is unrealistic. Such an expectation would also sit uncomfortably with the nationally determined architecture of the Paris Agreement and the principle of common but differentiated responsibilities and respective capabilities (CBDR-RC), which together preserve discretion in the choice of climate policy instruments and trajectories (Boute, 2024). Equally, social and economic adjustment costs of a high carbon price in many low- and middle-income countries can be considerable, particularly absent established institutions for revenue recycling and social protection (Elkerbout et al., 2025).

In stark contrast stands the actual emissions footprint of the jurisdictions most affected by climate change. Forty-four countries currently classified as LDCs, home to roughly 14% of the world's population—about 1.1 billion people—together accounted for only around 1.1% of global CO_2 emissions from fossil-fuel combustion and industrial processes in 2019 (UNCTAD, 2021). Subjecting their producers to the full force of a leakage instrument designed to discipline major industrial economies could be seen as disproportionate and counter to international differentiation and fairness requirements.

This view has found political resonance in the European Parliament's recent legislative process, where an amendment tabled in the ENVI Committee in May 2026 proposed a new recital recognizing that LDCs "have contributed minimally to global greenhouse gas emissions and lack the financial, technical and institutional capacity required to comply" with the CBAM, and called for "differentiated obligations, in line with the principle of common but differentiated responsibilities and respective capabilities, while still retaining reliable reporting information" (European Parliament, 2026b Amendment 92).

For another, channeling rents from CBAM-covered exports into the EU budget—rather than retaining or investing them in the country of origin—sits in tension with the international climate finance architecture. At the 29th Conference of the Parties (COP29) to the United Nations Framework Convention on Climate Change (UNFCCC), held in Baku, Azerbaijan, in 2024, parties agreed on a new collective quantified goal (NCQG) committing developed countries to take the lead in mobilizing at least USD 300 billion per year by 2035 for climate action in developing countries, with a wider call to scale finance from all sources to USD 1.3 trillion (UNFCCC, 2024).

A unilateral mechanism whose rents flow from South to North inverts the rationale of solidarity-based transfers under the United Nations Framework Convention on Climate Change. As Sandler and Schrag (2025) observe, allowing payments by exporters to finance mitigation in developing countries can both ease compliance and mobilize project finance where it is needed most. How, then, can these competing pulls be reconciled? Specifically, how can third countries retain more of the CBAM rent and afford their exporters compliance pathways closer to the EU ETS price, without sacrificing the CBAM's effectiveness as a leakage safeguard or its incentive effect on carbon pricing diffusion?

4 Three Building Blocks for a Workable Compromise

Drawing on earlier work on third country carbon price recognition (Fischer & Mehling, 2025), we see three building blocks for a balanced design that allows some flexibility to close the price gap without compromising the integrity and carbon pricing incentive effects of the CBAM.

4.1 Symmetry Only Goes So Far: Recognizing Credits Used in Domestic Compliance

A first principle for the CBAM is symmetry with the EU ETS, so as to ensure that foreign producers are treated no less favorably than EU producers.[6] Currently, the EU ETS allows no domestic or international credits to be applied towards compliance. Mirroring the EU ETS would thus suggest a restrictive approach to credits, including credits generated under Article 6 of the Paris Agreement. The draft implementing regulation of 13 May 2026 nonetheless charts a more accommodating course: where a foreign compliance carbon pricing regime allows covered emitters to use credits to meet part of their obligation, the price paid for those credits is recognized as part of the carbon price effectively paid (European Commission, 2026a Recital 12). This accommodation would, as argued below, prove difficult to avoid—nor should it be: excluding the price paid for compliance credits would understate the carbon cost genuinely borne by covered emitters.

Concrete examples are easy to find. South Africa's Carbon Tax Act, in force since 2019, combines a basic tax-free allowance with an additional 5–10% offset allowance, against which firms can apply Clean Development Mechanism, Verified Carbon Standard, or Gold Standard credits to reduce their carbon tax liability. California's Cap-and-Invest Program has long permitted compliance entities to use offset credits for a defined share of their obligation, currently capped around 6% and scheduled to evolve in subsequent compliance periods. South Korea's Emissions Trading Scheme allows the use of Korean Offset Credits, originally up to 10% of the compliance obligation and now tightened to 5%, with further restrictions on international units. Colombia's carbon tax similarly recognizes domestic carbon credits as a means of discharging tax liability, capped at 50% of the carbon tax liability, and Singapore allows using eligible credits to cover up to 5% of taxable emissions. Of 41 ETSs in operation globally, 26 explicitly allow the use of domestic offsets (ICAP, 2026). In fact, channeling finance toward domestic forest, methane capture, clean cooking, or other priority programs is often an explicit motivation for creating the carbon pricing instrument in the first place.

In each of these systems, the price effectively paid by a covered installation for its compliance obligations will include, in part, the price paid for credits. Refusing to recognize that portion under Article 9—the path the draft implementing regulation rightly avoids—would greatly reduce the scope of deductible carbon prices and seem like an excessive intervention in the nationally determined process of climate policy choice and instrument design. In emissions trading systems, moreover, the use of lower-cost credits towards compliance will anyway reduce the price of allowances in the secondary market, and thus the cost that importers can claim as "effectively paid" even when they purely rely on purchased allowances.

That said, any qualitative and quantitative limits imposed in the country of origin should also apply under the CBAM: where a domestic system caps credit use at 5%, that cap should travel with the credit when claimed as a domestic carbon price

[6] According to Article 1 of the CBAM Regulation, the "CBAM complements the system for greenhouse gas emission allowance trading within the Union established under Directive 2003/87/EC (the 'EU ETS')". It adjusts specifically for the carbon price faced by European producers under the EU ETS, or, in other words, mirrors that carbon price for the imported goods it covers.

effectively paid under Article 9 of the CBAM Regulation.[7] For credits generated and used within a domestic compliance regime, the draft implementing regulation adopts precisely this logic, deferring to the host regime's own limits rather than layering a separate EU ceiling on top (European Commission, 2026a Recital 12). For international credits, by contrast, the draft departs from this permissive approach, confining recognition to units authorized and issued under Article 6.2 or Article 6.4 of the Paris Agreement and capping it uniformly at 10% of the reported and confirmed emissions under the third-country mechanism, irrespective of the host regime's own rules (ibid., Recital 13 and Annex I, Section 3.3.4).

In specifying qualitative criteria for eligible international credits, the draft has thus chosen to rely on an existing international framework rather than to become a separate arbiter of credit quality, recognizing only units authorized and issued under Article 6 of the Paris Agreement (European Commission, 2026a Recital 13). Given the proliferation of quality assurance frameworks and integrity standards for credits, their historical track record, and the attendant administrative and methodological complexities, this is a reasonable choice: deferring to the procedures set up under the Paris Agreement Crediting Mechanism (PACM) and the methodologies approved by its Supervisory Body spares the EU from duplicative and contestable quality determinations of its own.[8]

4.2 Closing the Price Gap for Least-Developed Countries (LDCs)

The draft implementing regulation makes a domestic compliance carbon pricing system the threshold condition for any deduction under Article 9, recognizing only prices paid under a binding tax, levy, fee, or emissions trading system, in line with the definition of "carbon price" set out in Article 3(29) of the CBAM Regulation (European Commission, 2026a Recital 8). Insisting on a domestic compliance carbon price helps preserve the political economy logic by which the CBAM has accelerated carbon pricing diffusion: stand-alone reliance on international credits would offer an attractive exit ramp from precisely that dynamic. The draft holds firmly to this condition, and rightly so as a general matter—but it makes no allowance for the one category of country for which the condition is least defensible.

Echoing the draft report of the Rapporteur in the European Parliament, an exception could be carved out for LDCs, whose technical and fiscal circumstances genuinely impede the introduction of compliance carbon pricing in the short term (European Parliament, 2026a Amendment 12 and p. 28). Such a carve-out has also found support by other Members of the European Parliament, whose proposed amendment would recognize that LDCs "lack the financial, technical and institutional capacity required to comply" and call for "differentiated obligations, in line with the principle of common but differentiated responsibilities and respective capabilities" (European Parliament, 2026b Amendment 92).

Allowing LDC exporters to use Article 6 credits in lieu of a domestic carbon price (Sandler & Schrag, 2025) would surrender some of the incentive effects of the CBAM, but would affect few emissions and exports, and the development and decarbonization benefits would arguably offset that cost. Channeling project finance into low-income economies in line with the NCQG aligns the CBAM with, rather than against, the broader climate finance architecture. To ensure the investment and development benefits accrue to the right country, qualitative restrictions defined by the EU could include a stipulation that Article 6 or domestic mitigation projects have to be hosted by the exporting LDC for credits to be eligible under the CBAM. As mentioned in the previous section,[9] there is also relevant precedent for such a geographic limitation: international credits became ineligible for compliance under the EU ETS after a cut-off date unless they had been generated in an LDC.

---

[7] Reciprocally, should the EU ETS itself ever open up to international credits—an option being canvassed in the upcoming ETS review—recognition of credits under the CBAM should mirror the EU's domestic rules in scope and stringency.

[8] That said, there is precedent for qualitative restrictions imposed by the EU as an additional layer on top of an international standard: when the EU ETS was first linked to the project mechanisms of the Kyoto Protocol, the relevant legislation excluded credits from activities involving nuclear energy and land use, land-use change and forestry, as well as certain hydropower projects. Later, the EU ETS legislation was amended to also preclude credits from industrial gas projects and limit eligibility to new credits originating from LDCs (European Union, 2009).

[9] See n. 8 above.

A more elaborate variant has been canvassed in the literature: tiered, development-linked carbon prices under which an LDC could be deemed to have a CBAM-equivalent price even at a fraction of the EU level (Bekkers et al., 2024; Elkerbout et al., 2025; Parry et al., 2021). Parry et al. (2021), for example, proposed a graduated international carbon price floor among large emitters, illustratively set at USD 75 per tonne for advanced economies, USD 50 for middle-income emerging economies, and USD 25 for low-income emerging economies by 2030, explicitly anchored in the principle of CBDR-RC. Translating this logic into the CBAM crediting context, exports from an LDC could be deemed to satisfy their full CBAM obligation at a lower "deemed" price calibrated to development status, with metrics such as gross national income or GDP per capita on a purchasing power parity basis providing quantifiable yardsticks.

A hypothetical case illustrates this approach: where the EU certificate price stands at €80 per tonne, an importer of products from an LDC might be deemed to have met its CBAM obligation at €20 per tonne. Alternatively, it could opt to settle that amount through approved Article 6 credit purchases if it does not possess the administrative and technical capacity to adopt a broader carbon pricing systems. Likewise, where the actual carbon price in the developing country leaves a gap to the tiered price "deemed" adequate to its development status, credits could be used to close the gap. The deemed price would itself ramp up over time, providing a glide path toward eventual convergence.

Accommodating any of these variants would require a dedicated derogation, since the draft as it stands admits no path for an LDC without a qualifying domestic compliance instrument; Articles 2(12) and 9(4) of the CBAM Regulation, which provide for bilateral arrangements and default carbon prices, offer a more plausible legal home, a point we return to in Section 5.

4.3 Closing the Price Gap for Other Trade Partners

That still leaves the considerable middle category: trade partners that are neither LDCs nor able to match the EU price, but that have, or are introducing, a domestic carbon pricing regime applied to these industries. All major emerging economies and many advanced economies are now implementing some form of compliance carbon pricing, but these systems have marginal (observable) prices typically well below the EU ETS allowance price—and average rates well below that or even approaching zero, due to free allocation or other concessions. Brazil, India, Indonesia, Türkiye, and Vietnam all fall, at least currently, into this category. Under Article 9 of the CBAM Regulation, as now confirmed in the draft implementing regulation, any "rebate or other form of compensation" that reduces the "carbon price effectively paid" will be taken into account and not be deducted from the CBAM obligation (European Commission, 2026a Recital 14 and Article 8(1)). For such jurisdictions with low carbon prices, carbon prices that entail rebates and other forms of compensation, or both, several mechanisms could nonetheless allow importers to close the gap to the CBAM certificate price while retaining revenue in the country of origin.

A first option would have exporting countries set a high nominal carbon price, while allowing these systems to use free allocation or some other form of rebate or compensation—as the EU has itself done for the past two decades (Meadows et al., 2024)—to address competitiveness and other economic concerns. For goods exported to the EU, the free allocation or rebate could then be recaptured by allowing (or the country of origin requiring) producers to pay for these allowances, enabling the full nominal domestic carbon price to be claimed as effectively paid towards the CBAM liability. The draft implementing regulation lends this option a relatively secure footing: it attributes free allocation and the effective carbon price at installation level (European Commission, 2026a Annex I, Section 4.2), and stipulates that a rebate or other form of compensation will not be taken into account where an operator is entitled to it "but can prove that it has not requested it, or the request has been rejected" (European Commission, 2026a Article 8(3)). Accordingly, a regime that withholds free allocation from export-oriented installations while granting it to those serving the domestic market would, in principle, generate a higher recognized carbon price at the former.

Such an approach would retain a *marginal* price signal for all covered emitters at the level of the nominal carbon price, while additionally ensuring that producers of goods exported to the EU face an *average* carbon cost at that level. Two complications attend it. First, implementation will need to provide sufficient assurance that allocation arrangements in the country of origin actually impose a net price on exported goods—a non-trivial monitoring task, tractable mainly where free allocation is based on transparent, benchmark-based formulas. Second, asymmetric allocation for exporters could in principle attract scrutiny under the World Trade Organization's Agreement on Subsidies and Countervailing Measures, although the same concern attaches with even greater force to the EU's own historical free allocation practice (Mehling & Jakob, 2024). Importantly, unlike export subsidies, an export duty, tax or other charge does not, in principle, violate international trade law (Marceau, 2016).

A second option—which could be introduced alongside the previous option—would permit (or require) exporting producers to purchase Article 6 or other eligible credits *in addition to* compliance with the domestic carbon pricing regime, with the price paid for those units credited against the CBAM liability. This option would weaken the incentive to strengthen the domestic carbon price, yet would not fully eliminate the incentive to adopt a carbon price in the first place, as the existence of a compliance pricing regime would remain a necessary condition for any benefit from credit purchases. The draft implementing regulation accommodates this option only partially: Section 3.3.4 of Annex I conditions recognition on credits being used "to meet compliance obligations" within the domestic regime, and the 10% Article 6 ceiling captures only credits used for compliance, not purchases made above and beyond a producer's compliance obligation specifically to narrow the gap to the CBAM price.

A third mechanism, finally, would differ from the first and second option above: rather than recapturing rebates or using credit purchases as a way to narrow the price gap to CBAM certificates, it would allow (or require) CBAM good exporters simply to make additional payments in the country of production by way of overpaying their tax obligation (in the case of a carbon tax) or purchasing more allowances than needed for compliance (in the case of an emissions trading system).[10] Again, revenues would stay at home. In the case of an emissions trading system, this option could exert upward pressure on the exporting country's allowance price, encouraging additional systemwide reductions, but would require sufficiently liquid domestic markets to absorb the additional demand. Here too the draft implementing regulation offers only an attenuated basis: Annex I, Section 3.3.1 permits the carbon price to be established by the average cost of compliance units actually purchased, which could partially capture supra-compliance acquisitions held in an operator's account, though not unambiguously.

These three mechanisms differ along several axes, with distinct tradeoffs across the four dimensions that matter most for Article 9 design: the incentive effect on carbon pricing diffusion, the share of CBAM rents retained in the country of origin, the strength of leakage protection delivered, and the administrative complexity involved.

Mechanism	Carbon Pricing Diffusion	Revenue Retention	Leakage Protection	Administrative Complexity
Recapturing rebates, free allocation or other forms of compensation	Strong	High	Moderate-Strong	Moderate
Top-up credit purchases	Weak-Moderate	Partial	Moderate	High (if accompanied by integrity criteria)
Overcompliance at home: Top-up tax payments or allowance purchases	Moderate-Strong	High	Moderate-Strong	Low to moderate

Table 1: Options to Close the Price Gap and their Tradeoffs

[10] We are grateful to István Bart for first drawing our attention to this option.

A design choice common to all three options is whether the gap-closing step is left to the exporter as a voluntary election or mandated by the country of origin. Mandatory arrangements have a distinct advantage under the draft: because they would then form part of the binding compliance obligation imposed by the domestic instrument, they fit within Article 3(29) and the draft implementing regulation's recognition of compliance carbon pricing systems, and they avoid the appearance of an *ad hoc*, export-specific charge. Voluntary top-ups by exporters, by contrast, sit less comfortably within that framework, even though they may be politically easier for a government reluctant to legislate a higher obligation. Were the implementing regulation to recognize supra-compliance payments at all, doing so on a mandatory basis would therefore be the more defensible route.

None of the three options is foreclosed outright under the draft implementing regulation, but each would benefit from clarifying amendments, as discussed below. In each case, the EU could specify further criteria—covering, *inter alia*, the conditions for topping up a domestic carbon price, such as quantitative limits that decline over time or transitioning to a maximum ratio of domestic carbon payments—to preserve the integrity of the deduction and create incentives for a further strengthening of third-country carbon prices. A related ambiguity attends the requirement that the underlying mechanism apply to all operators "without discrimination" (European Commission, 2026a Recital 8): read strictly, it could call into question gap-closing arrangements that deliberately expose export-oriented installations to a higher net carbon price than installations serving domestic markets, for instance through differentiated free allocation. Clarifying that differentiation to allow a higher carbon price for exporters is not impermissible "discrimination" would remove an obstacle to the kind of gap-closing design this commentary advocates.

5 Refining the Draft Implementing Regulation to Close the Price Gap

What is recognized under Article 9 is the price effectively paid per tonne of embedded emissions, expressed as a monetary amount, not the emissions purportedly offset. This is the elegance of the architecture set out in Articles 3(29) and 9 of the CBAM Regulation: the deduction tracks actual carbon cost incidence at installation level, not claimed environmental performance. That logic preserves the level playing field the CBAM is meant to ensure between EU and foreign products, and it provides a principled basis on which the European Commission can determine how to calculate the carbon price effectively paid.

In its essential architecture, the draft of 13 May 2026 operationalizes this approach: recognition of a monetary amount rather than a quantity of emissions, tracking the actual cost borne by foreign producers. Yet because the CBAM was never intended as a revenue-raising instrument, and because rents drawn from third-country exports sit uneasily with the solidarity principles of the international climate regime, there is a strong case for enabling trade partners to close the price gap at home rather than foreclosing that possibility. On this, the draft is currently more restrictive than it needs to be.

A few targeted adjustments would suffice to open that space. Most directly, recognition of credits and allowances could be extended beyond a producer's strict compliance obligation, so that top-up purchases tied to exports count toward the carbon price effectively paid as suggested in one of the amendments proposed by Members of the European Parliament (European Parliament, 2026b Amendment 126). Mandatory arrangements—in which third country governments would require such top-up purchases from exporters—would fit most comfortably within the draft's own logic, since they would then form part of the binding obligation imposed by the domestic instrument and thus fall within the definition of a carbon price under Article 3(29); voluntary top-ups by exporters, while offering greater flexibility, would require a more explicit accommodation. Aligning the flat 10% ceiling on international credits with such gap-closing solutions, clarifying that allocation calibrated to expose exporters to a higher net price is not impermissible "discrimination," and providing a dedicated derogation for least developed countries would remove the principal remaining obstacles.

Even absent such amendments, some room to close the gap already exists. One of the options set out above—recapturing free allocation through a high nominal price—operates within the current draft, since the effective price is assessed at

installation level. And two routes outside the implementing regulation remain available: bilateral agreements concluded under Article 2(12) of the CBAM Regulation, through which the EU could give structured recognition to a partner's carbon pricing arrangements, and the determination of default or presumed carbon prices under Article 9(4), which could be calibrated to reflect gap-closing payments or development status. Neither depends on reopening the implementing act, and both could serve as a foundation on which the more far-reaching refinements might later build.

Looking past 2026, the implications of these choices reach well beyond the EU. With the United Kingdom's CBAM scheduled to take effect in 2027, Australia and Canada considering similar instruments, and several proposals advancing in other parts of the world (Burton et al., 2026), decisions taken in the EU's Article 9 implementing regulation will set a precedent for what is fast becoming a family of border carbon adjustments, and with it, whether such instruments come to be seen as unilateral instruments that aspire towards fairness and respect for nationally determined climate action, or primarily seek to serve domestic economic interests.

Bibliography

Bahí, A., Fuchs, M., & Reverdy, C. (2026). *Carbon pricing beyond borders: Assessing climate policy spillovers from the EU carbon border adjustment mechanism* (Working Paper No. 05/2026; p. 19). Bruegel. https://doi.org/https://doi.org/10.64153/QIJX8741

Beaufils, T., Ward, H., Jakob, M., & Wenz, L. (2023). Assessing different European Carbon Border Adjustment Mechanism implementations and their impact on trade partners. *Communications Earth & Environment*, *4*(1), 131. https://doi.org/10.1038/s43247-023-00788-4

Beaufils Timothé, Wanner Joschka, & Wenz Leonie. (2026). The potential of Carbon Border Adjustments to foster climate cooperation. *Journal of the Association of Environmental and Resource Economists*, *13*. https://doi.org/10.1086/742163

Bekkers, E., Yilmaz, A. N., Bacchetta, M., Ferrero, M., Jhunjhunwala, K., Métivier, J., Okogu, B. E., Ramos, D., Tresa, E., & Xu, A. (2024). *A global framework for climate mitigation policies: A technical contribution to the discussion on carbon pricing and equivalent policies in open economies* (Staff Working Paper ERSD-2024-03; Issue ERSD-2024-03, p. 53). World Trade Organization. https://doi.org/10.30875/25189808-2024-3

Bencini, J., Delbeke, J. M., Dietz, C., & Michalak, J. (2026). *Towards an EU strategy on international carbon credits* (Policy Brief Issue 2026/09; STG Policy Papers, p. 8). European University Institute. https://doi.org/10.2870/7901681

Boute, A. (2024). Accounting for Carbon Pricing in Third Countries Under the EU Carbon Border Adjustment Mechanism. *World Trade Review*, *23*(2), 169–189. Cambridge Core. https://doi.org/10.1017/S1474745624000107

Bradford, A. (2020). *The Brussels Effect: How the European Union Rules the World*. Oxford University Press. https://academic.oup.com/book/36491

Burton, B., Windorf, O., & Ye, J. (2026). *Developments in Border Carbon Adjustments in the 119th Congress and Abroad* (p. 15). Center for Climate and Energy Solutions. https://www.c2es.org/wp-content/uploads/2026/01/developments-in-border-carbon-adjustments-in-the-119th-congress-and-abroad.pdf

Business for CBAM Coalition. (n.d.). *International credits*. Retrieved https://www.businessforcbam.eu/international-credits

Clausing, K. A., Elkerbout, M., Nehrkorn, K., & Wolfram, C. (2024). *How Carbon Border Adjustments Might Drive Global Climate Policy Momentum* (Report Nos 24–20; p. 19). Resources for the Future. https://www.rff.org/publications/reports/how-carbon-border-adjustments-might-drive-global-climate-policy-momentum

Council. (2026). *Council Conclusions on EU Energy and Climate Diplomacy: EU Energy and Climate Diplomacy – Strengthening Sovereignty and Advancing the Global Clean Transition. Doc. 8417/26* (Council Conclusions No. 8417/26). Council of the European Union. https://data.consilium.europa.eu/doc/document/ST-8417-2026-INIT/en/pdf

Council of the European Union. (2026a, March 24). *Draft 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: Presidency compromise text. Doc. 7572/26*. https://data.consilium.europa.eu/doc/document/ST-7572-2026-INIT/en/pdf

Council of the European Union. (2026b, April 29). *Draft 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: Presidency compromise text. Doc. 8555/26*.

Council of the European Union. (2026c, May 29). *Draft 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: General approach, 2025/0419 (COD)*.

Crippa, M., Guizzardi, D., Pagani, F., Banja, M., Muntean, M., Schaaf, E., Monforti-Ferrario, F., Olivier, J. G. J., & Vignati, E. (2025). *GHG Emissions of All World Countries—2025 Report*. Publications Office of the European Union. https://doi.org/10.2760/9816914

Elkerbout, M., Nehrkorn, K., & Kleimann, D. (2025). *For climate-and-trade policies, the principle of 'common but differentiated responsibilities' cuts both ways* (Issue Brief 25-08; p. 6). Resources for the Future. https://media.rff.org/documents/IB_25-08_updated.pdf

European Commission. (2025a). *Report to the European Parliament and the Council on the application of the regulation on the carbon border adjustment mechanism, COM(2025) 783 final* (COM(2025) 783 final; p. 58). https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025DC0783

European Commission. (2025b, August 28). *CBAM implementation: Rules on the methodology for calculating emissions embedded in CBAM goods; rules on the adjustment of CBAM certificates to reflect the EU ETS free allocation; rules on the deduction of the carbon price paid in a third country, Ref. Ares(2025)6962941* [Call for Evidence]. https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/14830-Carbon-border-adjustment-mechanism-CBAM-carbon-price-paid-in-a-third-country_en

European Commission. (2025c, December 17). *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 COM(2025) 989 final, 17 December 2025*. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025PC0989

European Commission. (2026a, May 13). *Draft Commission Implementing Regulation (EU) .../... Laying down rules for the application of Regulation (EU) 2023/956 as regards the conversion of the carbon price paid in a third country into a corresponding reduction in the number of CBAM certificates to be surrendered, the evidence of payment of that carbon price, the qualifications of the independent person and conditions to ascertain its independance and qualifications* [Commission Implementing Regulation]. European Commission. https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/14830-Carbon-border-adjustment-mechanism-CBAM-carbon-price-paid-in-a-third-country_en

European Commission. (2026b, May 13). *Synopsis report on Calls for Evidence on the implementing act on the carbon price paid in third countries for the definitive phase of the CBAM*. https://taxation-customs.ec.europa.eu/news/carbon-price-paid-third-countries-2026-05-13_en

European Parliament. (2026a, April 10). *Draft report on the 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*. European Parliament. https://www.europarl.europa.eu/doceo/document/ENVI-PR-786835_EN.pdf

European Parliament. (2026b, May 12). *Amendments 35–234 to Draft Report on the proposal for a regulation amending Regulation (EU) 2023/956 as regards the extension of its scope to downstream goods and anti-circumvention measures, PE788.846v01-00*. https://www.europarl.europa.eu/doceo/document/ENVI-AM-788846_EN.html

European Union. (2009, April 23). *Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community [2009] OJ L140/63*. https://eur-lex.europa.eu/eli/dir/2009/29/oj/eng

European Union. (2023, May 16). *Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism*. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023R0956

Fischer, C., & Mehling, M. A. (2025). Counting on carbon pricing: Determining a carbon price paid in third countries and coalitions. In Climate Club (Ed.), *Industry on the road to 2050: A report prepared for the Climate Club* (pp. 94–110). https://climate-club.org/wp-content/uploads/2025/11/Industry-on-the-road-to-2050.pdf

Gualandi, R., Singh, A., & Manuell, R. (2026, May 20). EU opening for Article 6 in CBAM sends "positive signal" for credit demand, but puts climate credibility at risk. *Carbon Pulse*. https://carbon-pulse.com/513712

Helm, D., Hepburn, C., & Ruta, G. (2012). Trade, climate change, and the political game theory of border carbon adjustments. *Oxford Review of Economic Policy*, *28*(2), 368–394. JSTOR. https://doi.org/10.1093/oxrep/grs013

Humphries, R., Perraudeau, F., Malvar, K. H., Damon, K., Bart, I., & Barata, P. M. (2026). *International Credits in the EU: Credit Quality Criteria and Implications for the EU's Purchasing Strategy* (Options Paper). The Nature Conservancy. https://library.edf.org/AssetLink/76xh30h3q602f2bq652eky8ues5d8xi5.PDF

ICAP. (2026). *Emissions trading worldwide: Status report 2026* (p. 293). International Carbon Action Partnership. https://icapcarbonaction.com/en/publications/emissions-trading-worldwide-icap-status-report-2026

Lezak, S., Zaman, S., Johnstone, I., & Haya, B. (2026). UNFCCC carbon trading could undermine global climate action. *Nature Climate Change*, *16*(1), 8–9. https://doi.org/10.1038/s41558-025-02517-5

Magacho, G., Espagne, E., & Godin, A. (2023). Impacts of the CBAM on EU trade partners: Consequences for developing countries. *Climate Policy*, *24*(2), 243–259. https://doi.org/10.1080/14693062.2023.2200758

Manuell, R. (2026, May 26). Potential EU CBAM-linked Article 6 demand could reach 17 Mt per year, as market questions "arbitrary" cap. *Carbon Pulse*. https://carbon-pulse.com/514961

Marceau, G. (2016). WTO and Export Restrictions. *Journal of World Trade*, 563–586.

Meadows, D., Yordi, B., & Vis, P. (2024). Addressing Carbon Leakage under the EU ETS. In J. Delbeke (Ed.), *Delivering a Climate Neutral Europe* (pp. 83–103). Routledge. https://www.routledge.com/Delivering-a-Climate-Neutral-Europe/Delbeke/p/book/9781032797618

Mehling, M. A., Dolphin, G., & Ritz, R. A. (2025). The European Union's CBAM: averting emissions leakage or promoting the diffusion of carbon pricing? *Journal of Environmental Policy & Planning*, *27*(6), 687–705. https://doi.org/10.1080/1523908X.2025.2591794

Mehling, M. A., & Jakob, M. (2024). Subsidy-related aspects of the EU Carbon Border Adjustment Mechanism (CBAM). *Journal of World Trade*, *58*(3), 361–386.

Otto, S. (2025). The external impact of EU climate policy: Political responses to the EU's carbon border adjustment mechanism. *International Environmental Agreements: Politics, Law and Economics*, *25*, 177–194. https://doi.org/10.1007/s10784-025-09667-z

Parry, I. W. H., Black, S., & Roaf, J. (2021). *Proposal for an International Carbon Price Floor among Large Emitters* (No. 2021/001; IMF Staff Climate Notes, p. 21). International Monetary Fund. https://www.imf.org/-/media/Files/Publications/Staff-Climate-Notes/2021/English/CLNEA2021001.ashx

Probst, B. S., Toetzke, M., Kontoleon, A., Díaz Anadón, L., Minx, J. C., Haya, B. K., Schneider, L., Trotter, P. A., West, T. A. P., Gill-Wiehl, A., & Hoffmann, V. H. (2024). Systematic assessment of the achieved emission reductions of carbon crediting projects. *Nature Communications*, *15*(1), 9562. https://doi.org/10.1038/s41467-024-53645-z

Romm, J., Lezak, S., & Alshamsi, A. (2025). Are Carbon Offsets Fixable? *Annual Review of Environment and Resources*, *50*, 649–680. https://doi.org/https://doi.org/10.1146/annurev-environ-112823-064813

Sandler, E., & Schrag, D. P. (2025). Carbon tax assets for carbon tax liabilities: Using CBAM to increase climate finance. *Climate Policy*, 1–11. https://doi.org/10.1080/14693062.2025.2543096

UNCTAD. (2021). *Smallest footprints, largest impacts: Least developed countries need a just sustainable transition*. United Nations Conference on Trade and Development. https://unctad.org/topic/least-developed-countries/chart-october-2021

UNFCCC. (2024, November 24). *New collective quantified goal on climate finance. Decision 1/CMA.6* [Decision]. United Nations Framework Convention on Climate Change. https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf

von der Leyen, U. (2020). *Political Guidelines for the Next European Commission 2019-2024*. Publications Office of the European Union. https://data.europa.eu/doi/10.2775/101756

Wara, M. (2007). Is the Global Carbon Market Working? *Nature*, *445*, 595–596. https://doi.org/https://doi.org/10.1038/445595a

World Bank. (2024). *State and Trends of Carbon Pricing 2024*. World Bank. https://doi.org/10.1596/978-1-4648-2127-1

World Bank. (2025, August 28). *Carbon Pricing Dashboard*. World Bank. https://carbonpricingdashboard.worldbank.org

About the Authors

Carolyn Fischer is a Lead Economist on the Planet Research Team in the Development Research Group of the World Bank. Her research addresses topics of environmental policy instrument design at the intersection with technical change, trade, development, carbon leakage, and overlapping objectives. She has held appointments as a professor of environmental economics at the Vrije Universiteit Amsterdam and as a Canada 150 Research Chair in Climate Economics, Innovation and Policy at the University of Ottawa. She spent the first 20 years of her career at Resources for the Future (RFF), where she continues to enjoy a senior fellow affiliation. She serves on expert advisory boards for research institutes and programs in Europe and in North America. She earned her Ph.D. in Economics from the University of Michigan, Ann Arbor.

Michael Mehling is Deputy Director of the MIT Center for Energy and Environmental Policy Research. In his work, he focuses on climate policy design and implementation, and has advised decision makers in over a dozen countries, briefed legislators on both sides of the Atlantic, and served as an expert in several climate litigation cases. Previously, he was a Professor of Law at the University of Strathclyde in Glasgow and President of Ecologic Institute in Washington, DC. He is a founding board member of the European Association of Climate Law and the European Roundtable on Climate Change and Sustainable Transition, as well as founder and Editor-in-Chief of the *Carbon & Climate Law Review*. He earned law degrees from the University of Constance and the Hanseatic High Court of Appeal, and LL.M. and Ph.D. degrees from the University of Helsinki.

ceepr.mit.edu

About the Center for Energy and Environmental Policy Research (CEEPR)

Since 1977, CEEPR has been a focal point for research on energy and environmental policy at MIT. CEEPR promotes rigorous, objective research for improved decision making in government and the private sector, and secures the relevance of its work through close cooperation with industry partners from around the globe. CEEPR is jointly sponsored at MIT by the MIT Energy Initiative (MITEI), the Department of Economics, and the Sloan School of Management.

Contact.

The MIT CEEPR Research Commentary Series is published by the MIT Center for Energy and Environmental Policy Research from submissions by affiliated researchers.

For inquiries and/or for permission to reproduce material in this commentary, please contact:

General inquiries: ceepr@mit.edu

Media inquiries: ceepr-media@mit.edu

MIT CEEPR

Center for Energy and
Environmental Policy Research

MIT Center for Energy and
Environmental Policy Research
Massachusetts Institute of Technology
77 Massachusetts Avenue, E19-411
Cambridge, MA 02139-4307
USA

ceepr.mit.edu

MASSACHUSETTS INSTITUTE OF TECHNOLOGY