

# Bellona Consultation Response on CBAM's carbon price paid in a third country

**CONSULTATION RESPONSE**

June, 2026

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Bellona Europa has long supported the Carbon border Adjustment Mechanism (CBAM) as a carbon pricing measure with a double objective. On the one hand it would allow the phase-out of free allocations under the EU Emission Trading System (EU ETS) while protecting European industries from the risk of carbon leakage. On the other hand, CBAM is designed to encourage decarbonisation abroad including by incentivising the setting up of carbon pricing systems in third countries. For this second objective to materialise, it is crucial that the CBAM takes into account the carbon price effectively paid in a third country.

Bellona Europa welcomes the opportunity to contribute to the design of the Implementing Regulation on the “carbon price in a third country”, as it is crucial for it to be aligned with the EU ETS and with the decarbonisation objectives of the CBAM. Accordingly, Bellona Europa recommends the Commission to include the proposals set out below in the Implementing Act on the methodology for the definitive regime.

## Carbon price vs. carbon price actually paid

While carbon pricing systems put a price on the emissions in the form of a carbon price (which can be concretised in a carbon tax, levy or fee or emission allowances in the case of an ETS) the actual carbon price paid does not necessarily coincide with the carbon price. This is because rebates or other form of compensation may apply which make the producers pay a minor amount of carbon price. This is the case in the European Union with carbon leakage protection measures such as free allocation or Indirect Cost Compensation (ICC). It is therefore crucial for the CBAM to consider all these factors to ensure that only the carbon price actually paid is accounted for under the mechanism. While overall this issue is properly tackled by Article 8, Bellona Europa recommends clarifying the following aspects:

- **Indirect cost compensation:** ICC is a carbon leakage protection measure designed to address the spillover of carbon costs into electricity prices resulting from the interaction between the EU ETS and EU electricity market dynamics. **The wording in Article 8 should be clarified to ensure that this only refers to compensation linked to the carbon price associated with the emissions embedded in the purchased electricity used for the production of the CBAM good.** This should be aligned with the more precise language already included in point 3(4) of Annex I. In particular, it should clarify that this concerns only compensation related to the carbon price paid on purchased electricity. This distinction is important as the concept of “indirect cost compensation” is specific to the EU context and could otherwise create legal uncertainty or overly broad interpretations.
- **Revenues originating from a carbon price mechanism:** Bellona Europa supports the derogation set out in Article 8(2) of the Implementing Regulation, which ensures that subsidies financed through revenues generated by a carbon pricing mechanism are not deducted from the effective carbon price paid, provided that such subsidies are broadly accessible, transparently awarded, application-based, and specifically aimed at reducing emissions at the beneficiary installation. It is important that revenues originating from a carbon price mechanism and spent on decarbonisation must be encouraged. With this in mind, it is necessary for EU ETS revenues to also be spent on climate action and industrial decarbonisation, as Bellona has long [advocated](#) for.

## Carbon credits

According to Bellona Europa, carbon credits, whether domestic or international, **do not systematically deliver** outcomes equivalent to reducing emissions at their source or complying with a robust carbon pricing system, and therefore cannot be assumed to reflect a comparable carbon cost. In particular, key concerns regard the unlimited recognition of domestic carbon credits under the draft Regulation. For these reasons, **Bellona Europa's recommends the European Commission to exclude any recognition of carbon credits, both domestic and international under the carbon price paid in the third countries.** Please find below the main arguments backing this recommendation.

### **The problem of carbon credits as a carbon price paid in a third country**

The Implementing Regulation would allow both domestic and international carbon credits to be recognised as part of the "effective carbon price paid" under the CBAM. **In practice, this means that operators in third countries could reduce their CBAM liability not only through the payment of a direct carbon price on emissions, but also through the purchase of international carbon credits, or domestic credits which can be low-quality.** This raises significant concerns regarding the climate integrity and the effectiveness of the mechanism as it risks weakening the decarbonisation incentive the CBAM is designed to create.

Under the current proposal, carbon credits could be recognised under the CBAM as part of the effective carbon price paid, regardless of whether they are generated within the same jurisdiction as the carbon pricing mechanism (domestic credits) or outside that jurisdiction (international credits).

#### *International credits*

**While the proposal introduces certain safeguards for international credits**, including compliance with Article 6 of the Paris Agreement and quantitative limits, which Bellona Europa welcomes, **these safeguards remain insufficient to address the underlying issue that international credits do not necessarily translate into actual positive climate outcomes, meaning genuine emissions reductions.** Even within the proposed 10% cap, the use of international credits risks allowing emissions reductions to occur outside the jurisdiction and outside the relevant industrial process, rather than incentivising direct, verifiable industrial decarbonisation in sectors covered by the CBAM.

#### *Domestic credits*

Unlike international credits, **domestic credits are not subject to any additional qualitative or quantitative safeguards beyond proof of payment.** This is a big concern for Bellona Europa, as this could allow operators to rely on low-integrity credits, including credits with questionable additionality, unclear baselines or storage permanence, to reduce their CBAM obligation without undertaking meaningful emissions reductions within the production process itself. The fact that carbon credits are recognised under a carbon price mechanism in a third country and that they respect domestic standards does not mean that they are high quality.

From Bellona's perspective, recognising carbon credits as an "effective carbon price paid" under the CBAM risks undermining the core objective of the mechanism, namely to extend a direct incentive for industrial decarbonisation towards third countries. Offsetting mechanisms cannot be considered equivalent to an actual carbon price applied to emissions generated during production. For this reason, **Bellona calls for the exclusion of both domestic and international carbon credits from the calculation of the effective carbon price paid under the CBAM.** This is not about prescribing domestic policy choices in third countries, but about defining EU criteria for what can be recognised as a carbon price paid abroad.

For a more detailed analysis of the risks associated with recognising carbon credits as a substitute for direct emissions reductions, Bellona refers to its report [\*No Shortcuts to 90%: Designing the EU Post-2030 Climate Framework\*](#) (Section on International Carbon Credits, pp. 16–26). The report highlights the persistent integrity concerns surrounding international carbon credits, including problems related to additionality, baseline setting, permanence, leakage and monitoring. It argues that even credits compliant with Article 6 of the Paris Agreement cannot automatically be assumed to deliver equivalent climate outcomes to domestic emissions reductions. **Bellona further warns that excessive reliance on credits risks delaying structural decarbonisation, shifting mitigation efforts away from the sectors responsible for emissions, and weakening incentives for technological transformation.** These concerns are directly relevant to the CBAM, whose effectiveness depends on maintaining a strong incentive for industrial decarbonisation rather than enabling compliance through offsetting mechanisms.

### Principle of equivalence between CBAM and the EU ETS

The Commission justifies the inclusion of carbon credits by stating that "*for the purpose of ensuring equivalence with the carbon price paid under the EU ETS, credits or other emission units purchased under a baseline-and-credit emissions trading system should be considered equivalent to allowances paid under an emissions trading system.*" (Recital 10). However, this rationale raises significant concerns regarding the principle of equivalence between the CBAM and the EU ETS.

Under the EU ETS, operators are generally required to surrender allowances corresponding to their verified emissions, while the use of international credits has been progressively restricted and ultimately removed due to concerns over environmental integrity and the weakening of the carbon price signal. **Allowing third-country producers to reduce their CBAM liability through the use of carbon credits would therefore create an asymmetry between EU and non-EU producers,** as EU industries remain fully exposed to the carbon cost associated with their emissions.

**This would undermine the core objective of the CBAM,** namely to ensure a level playing field between domestic and imported products based on equivalent carbon costs. By recognising carbon credits as part of the effective carbon price paid, third-country producers could partially offset emissions rather than directly reducing them, while EU producers would continue to face the full compliance obligation under the ETS.

Addressing this inconsistency would either require extending the use of credits under the EU ETS as well, or excluding them from CBAM recognition altogether. The first option would risk repeating the shortcomings previously observed under the ETS, where the use of international credits weakened the effectiveness and credibility of the system and was therefore phased out. For this reason, **it is essential that the CBAM**

continues to mirror the principles and integrity of the EU ETS, rather than creating precedents that could indirectly reopen the debate on the reintroduction of credits into the ETS framework.

### **Inconsistency with the CBAM's objective and definition**

Article 1 of the CBAM Regulation states that the mechanism is intended to address greenhouse gas emissions embedded in imported goods “in order to prevent the risk of carbon leakage, thereby reducing global carbon emissions and supporting the goals of the Paris Agreement, also by creating incentives for the reduction of emissions by operators in third countries.”

Against this background, recognising carbon credits as part of the effective carbon price paid raises a more fundamental question regarding the nature of the CBAM itself. The mechanism is designed to take account of carbon costs borne during the production process and to ensure that imported products face a carbon cost comparable to that faced by EU producers under the EU ETS. **Carbon credits, however, do not constitute a carbon price levied on emissions generated during production. Rather, they are instruments allowing emissions to be compensated through activities occurring elsewhere.**

Recognising carbon credits as equivalent to a carbon price paid would therefore blur the distinction between carbon pricing and offsetting. Such an interpretation would expand the notion of an “effective carbon price paid” beyond its ordinary meaning and risk weakening the conceptual consistency of the CBAM framework. The issue is not whether third countries should be allowed to use carbon credits within their domestic climate policies, but whether such credits should be recognised by the EU as equivalent to a carbon cost imposed on the emissions embedded in imported goods.

This distinction is also reflected in the CBAM Regulation itself. Article 3 defines a “carbon price” as “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.” Carbon credits do not clearly fall within any of these categories. They are neither taxes, levies or fees imposed on emissions, nor emission allowances issued under an emissions trading system. While the Implementing Regulation proposes recognising certain carbon credits as part of the effective carbon price paid, such an approach arguably extends the concept of a carbon price beyond the categories explicitly envisaged in the basic Regulation.

#### *Effect on carbon pricing systems in third countries*

This consideration is particularly important in light of the broader international response to the CBAM. One of the mechanism's most significant achievements, even before entering its definitive phase, has been its influence in encouraging jurisdictions outside the European Union to introduce or strengthen domestic carbon pricing policies. **While only a limited number of jurisdictions currently allow the use of carbon credits within their carbon pricing systems, recognising carbon credits as a carbon price paid under the CBAM could incentivise more countries to incorporate credits into their own schemes in order to facilitate compliance with the mechanism.** This could weaken the effectiveness of domestic carbon pricing policies by reducing incentives for direct emissions reductions and, more broadly, undermine the integrity and effectiveness of carbon pricing as a climate policy tool.

## Final remarks

While Bellona Europa recognises the importance of adopting the Implementing Regulation on the carbon price paid in a third country without undue delay, the proposed recognition of carbon credits raises significant concerns from a climate, legal and conceptual perspective. At the same time, Bellona considers the overall direction of the Implementing Regulation to be sound and acknowledges the need for regulatory certainty ahead of the definitive phase of the CBAM.

**We therefore strongly recommend that the Commission refrain from including provisions on the recognition of carbon credits in this Implementing Act. The treatment of carbon credits raises complex and far-reaching questions that are currently being considered in parallel legislative and policy processes.** In particular, the possible treatment of credits under Article 6 of the Paris Agreement is already under discussion by the co-legislators in the context of the proposal amending the CBAM Regulation on downstream goods and anti-circumvention measures (Article 1(7)). Addressing the issue through an implementing act at this stage risks prejudging an ongoing legislative debate.

Furthermore, as noted above, the question of carbon credits is also likely to be relevant in the context of the upcoming review of the EU ETS, expected in July 2026, which may have broader implications for the future development of the CBAM. **Given these ongoing discussions, Bellona considers that the recognition of carbon credits under the CBAM should not be rushed, therefore excluded from the current Implementing Regulation.**

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