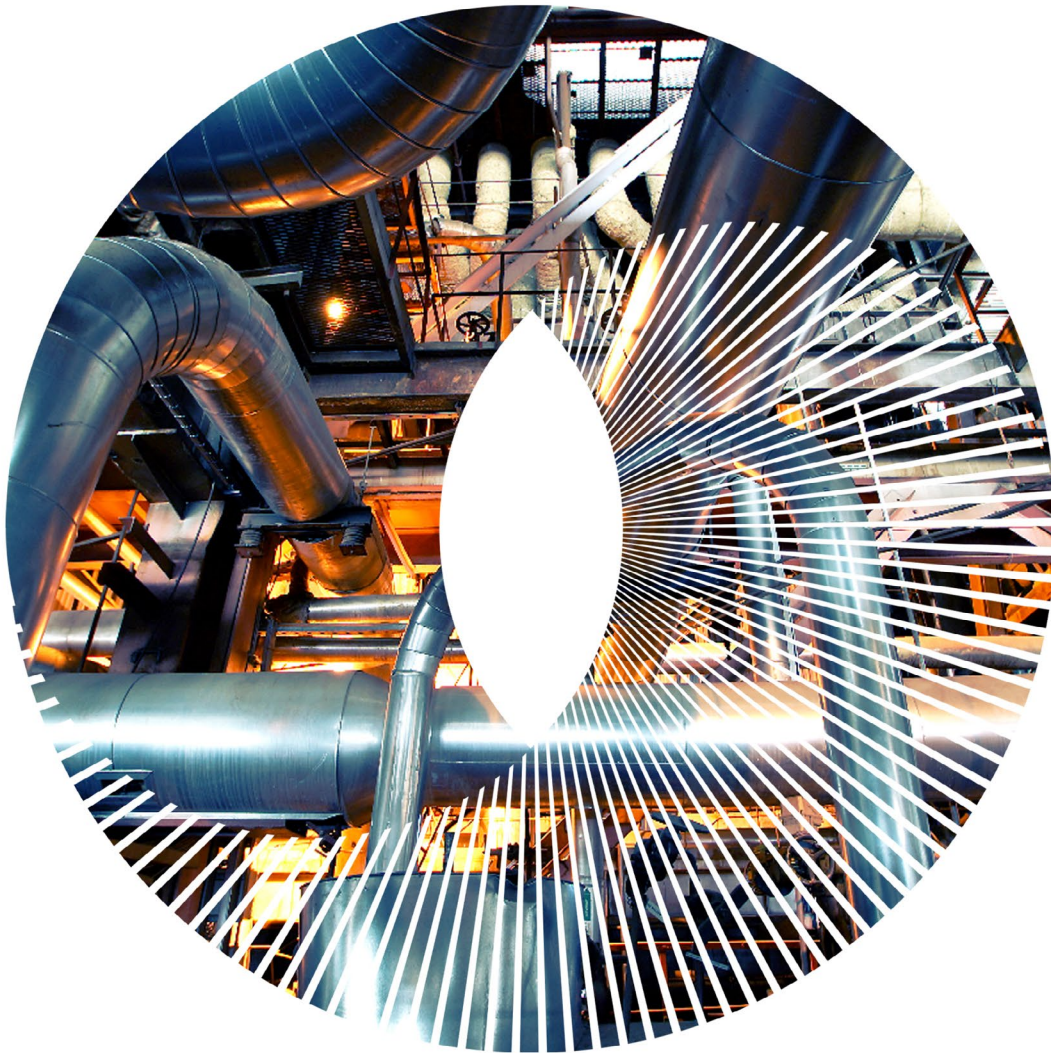


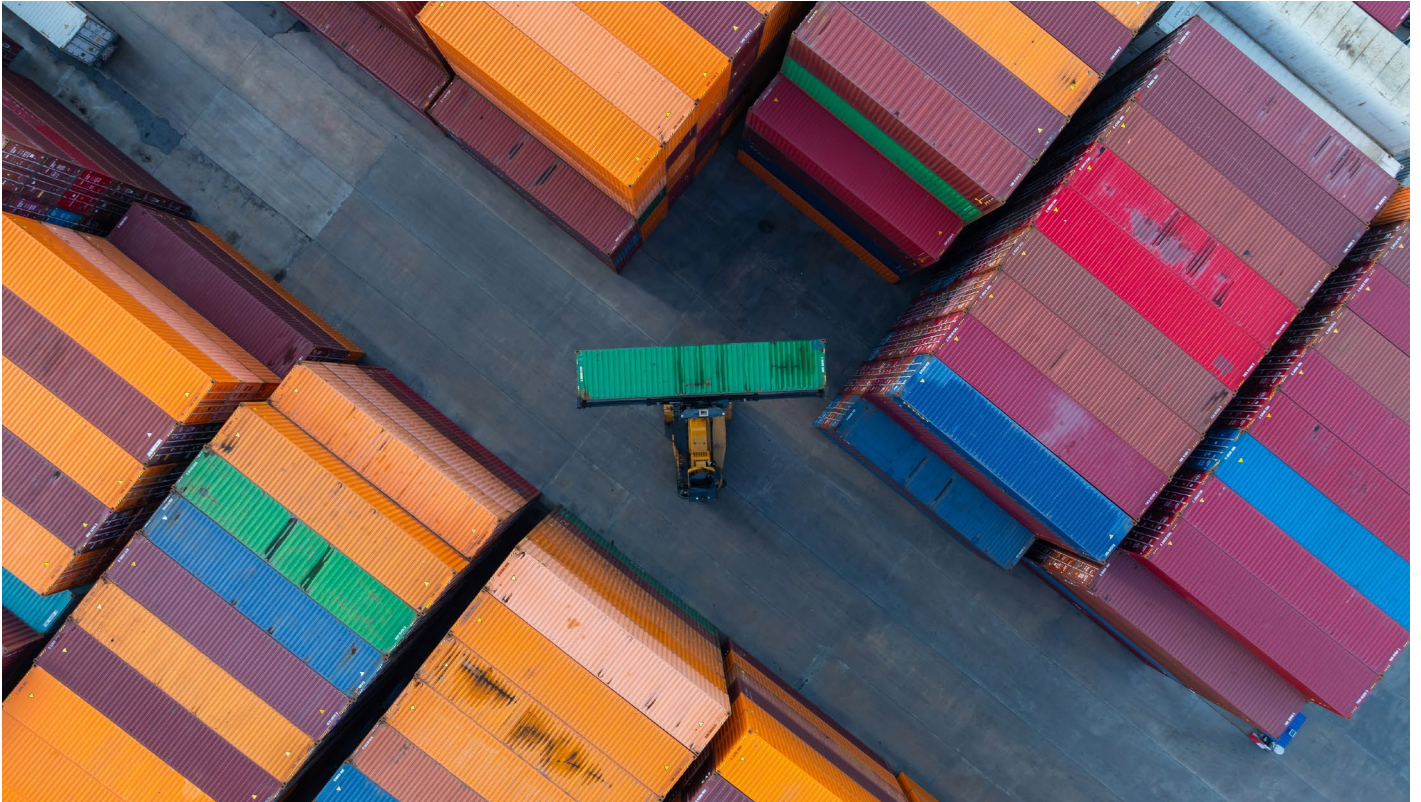
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Together makes progress



Navigating the new market realities in a CBAM world

The CBAM definitive phase started on 1 January 2026, imposing charges for embedded carbon in goods imported into the European Union. The regulations apply to iron and steel, aluminium, cement, fertilisers, hydrogen and electricity. Under the CBAM, we can expect radical changes in the competitive environment for countries exporting to the EU market. This briefing estimates the additional costs on embedded carbon and outlines steps EU importers can take to minimise them. ➤



The CBAM definitive phase started on 1 January 2026, imposing charges for embedded carbon in goods imported into the European Union. The regulations apply to iron and steel, aluminium, cement, fertilisers, hydrogen and electricity. Deloitte analyses estimate that EU imports in these product categories accounted for approximately 270 million tons of global CO₂ emissions in 2025. To put this in perspective, this is around 40 per cent of Germany's total annual greenhouse gas emissions.

Under the CBAM, we can expect radical changes in the competitive environment for countries exporting to the EU market and rising costs for EU importers. There are steps they can take in the short term to streamline reporting processes and minimise these additional costs, but in the medium to long term, these importers will have to focus on decarbonising their production processes.

CBAM is reshaping global competition and trade policy

Although the new carbon levy has only officially been in effect since 1 January 2026, it has been a key factor in international trade policy for some time.¹ The [Carbon Border Adjustment Mechanism \(CBAM\)](#) was also a key issue in the negotiations on the free trade agreement between the European Union (EU) and India.²

India hopes the agreement will boost its exports to the EU, particularly in steel and other goods subject to the CBAM. However, the additional costs on embedded carbon of these goods could affect their competitiveness. The free trade agreement, in its current form as of 27 January 2026, does not provide for any specific exemptions for Indian goods subject to the CBAM.³ The two countries have agreed instead to engage in a technical dialogue on carbon border adjustment measures in general

and on supporting India's greenhouse gas emission reduction efforts.⁴ This is in line with the fundamental aims of the CBAM: to increase global incentives for decarbonisation while promoting cooperation between the EU and its strategic partners on trade and environmental policies.

With almost 115 million tonnes of CBAM goods imported annually, the EU is a major trading partner across the globe. There are growing concerns in many countries – not just India – about remaining competitive in the European market.

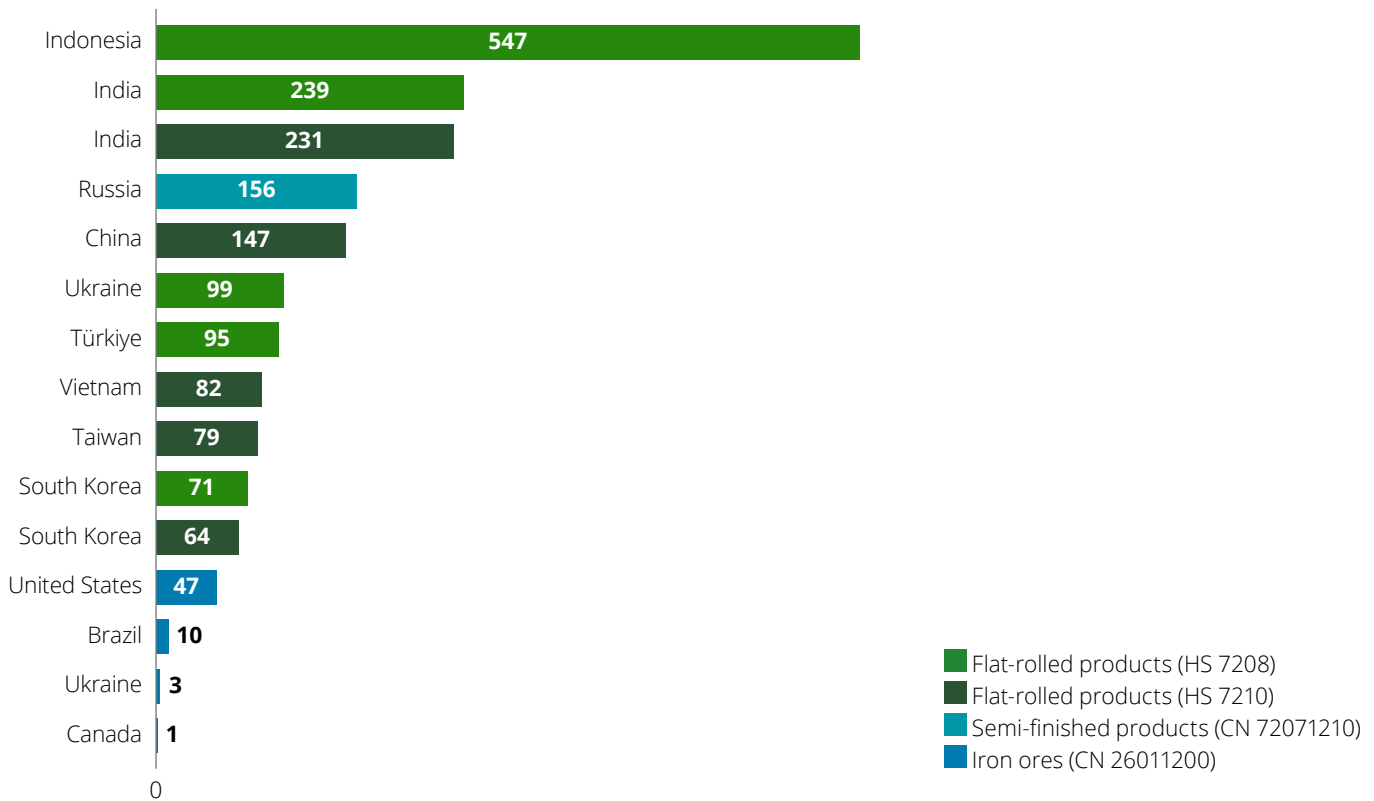
The iron and steel sector is a prime example of the uneven distribution of the policy's effect, as illustrated in an analysis of the 15 product-country combinations that accounted for 45 per cent of the above-mentioned EU imports in 2025 (see Fig. 1).⁵

As the carbon footprint of iron ore from Canada is roughly equivalent to that of iron ore produced in Europe, Canada is unlikely to incur a significant cost increase (roughly Euro 1 per tonne of iron ore). Canada is by far the EU's largest supplier of iron ore (8.5 million tonnes in 2025).

For imported flat-rolled steel products, the CBAM is expected to result in marked price increases across all major trading partners. Our calculations are based on 2026 projections (see Fig. 1), though we expect CBAM-related costs to continue to rise in subsequent years.

Fig. 1 – Top 15 product-country combinations

CBAM costs per tonne iron and steel based on default values (2026) (€/t)



Source: Deloitte analysis based on EU default values, a CBAM certificate price of Euro 71 per tonne of CO₂ and an assumed CSCF factor of 1. NB: Any eligible emissions costs levied in the country of manufacture would reduce the costs shown here accordingly.

Industries in Germany particularly affected by the CBAM

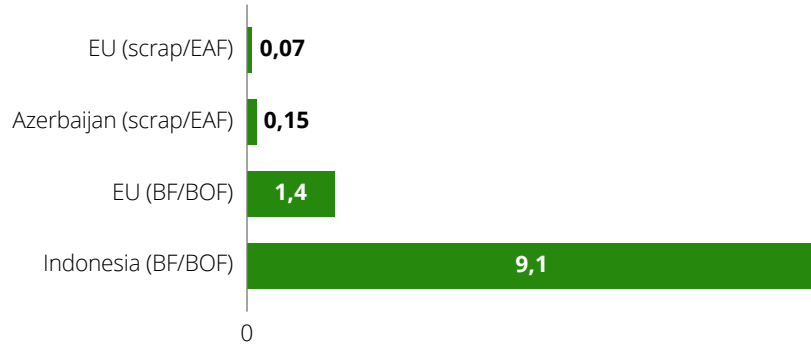
Germany's manufacturers – particularly in the automotive, metal and chemical industries – as well as its energy and construction sectors are among those most affected. Roughly half of all steel products processed in Germany are supplied to the construction sector (31 %) and the automotive sector (25 %).⁶

With added costs expected to reach as high as around Euro 550 per tonne of imported steel in 2026, emissions intensity is clearly becoming a significant factor in procurement and supplier selection. The number of CBAM certificates required by importers – and therefore the added costs – is directly proportional to the reported emissions.

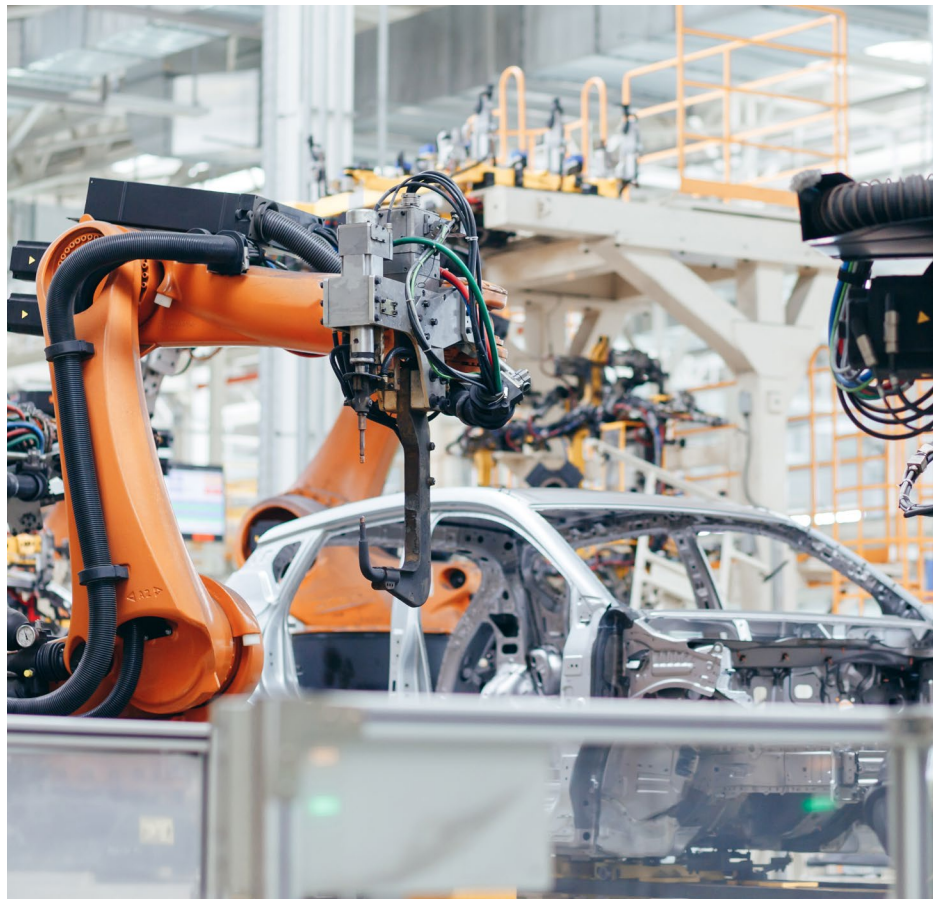
Fig. 2 illustrates how the choice of producer country affects reported emissions. We use the producer countries with the lowest and highest default values as reference points, along with the EU benchmark value for flat-rolled steel products (as an indicator of emissions intensity in the EU).⁷

For importers, it may be beneficial to rely on default values when goods are sourced from countries where the EU has set comparatively low emissions values – for example, recycled steel from Azerbaijan.

Fig. 2 – Range of emissions intensities for flat-rolled steel products (t CO₂/t steel)



Source: CBAM default values (Azerbaijan, Indonesia) and benchmark values (EU). NB: Scrap/BAF refers to the steel scrap/electric arc furnace route; BF/BOF refers to pig iron production in a coal-fired blast furnace and crude steel production in an oxygen converter.



Opportunities for EU companies to reduce CBAM-related costs

The key to minimising CBAM-related costs is for importers to systematically analyse and strategically refine their procurement processes. We recommend that companies first identify the short, medium and long-term cost implications of the policy, and then use those results to determine the best course of action.

It is also vital to establish a robust process for selecting and evaluating suppliers that takes full account of CBAM requirements. That way, companies can factor the associated costs into their overall cost analysis and make transparent, well-informed procurement decisions.

There are three key steps to effectively reduce CBAM costs:

1. Transparent reporting on the greenhouse gas emissions of goods

The default values set by the EU are generally higher than actual emissions and are subject to an average annual increase of roughly 18 per cent through a series of phased-in mark-ups until 2028 – with the exception of electricity and fertilisers.⁸ As the data available on actual emissions currently covers only a fraction of the total, more data will have to be collected. Importers need to obtain the necessary emissions declarations from their suppliers as quickly as possible and compare it with EU default values.

2. Identification of key suppliers to optimise reporting

Using this data, companies can then identify those suppliers whose actual emissions, rather than the default values, will result in the lowest possible number of CBAM certificates required. The next step is the mandatory verification of the

suppliers' emissions declarations. It is incumbent upon suppliers to engage an EU-accredited CBAM verifier to perform this verification. According to current plans, EU importers should be able to access the verified emissions data via the CBAM Registry.

3. Strategic analysis of the procurement strategy

Companies can optimise their supply chains in terms of emissions intensity, data availability and regulatory compliance through regular reviews of their procurement markets and supplier portfolios. Medium and long-term strategies may include, for example, adapting the supplier portfolio towards global suppliers with lower emissions intensity or sourcing more goods within the EU. However, this may come with higher procurement costs and additional administrative efforts for the purchasing department, e.g., to approve and qualify new suppliers. Companies may also elect to add transparency and verification requirements to their supplier contracts.

Other options are to actively support suppliers in their decarbonisation efforts or to leverage internal resources. Changes to the materials currently in use – by possibly revising designs and concepts – will help companies cut back on the use of high-emission raw materials, though it will require input from R & D and the quality department.

Companies may also find it helpful to start thinking about how the scope of the CBAM could expand in the future, so that the right measures are in place ahead of time. Discussions about expanding the scheme, which would come into force from January 2028, are currently focused on three key areas:⁹



Products

Upstream and downstream producers along the value chain of goods currently covered by the CBAM, e.g., automotive products and electrical appliances, with around 180 additional tariff headings.



Sectors

Additional sectors covered by the EU ETS, e.g., chemicals and polymers, glass, ceramics as well as pulp and paper.



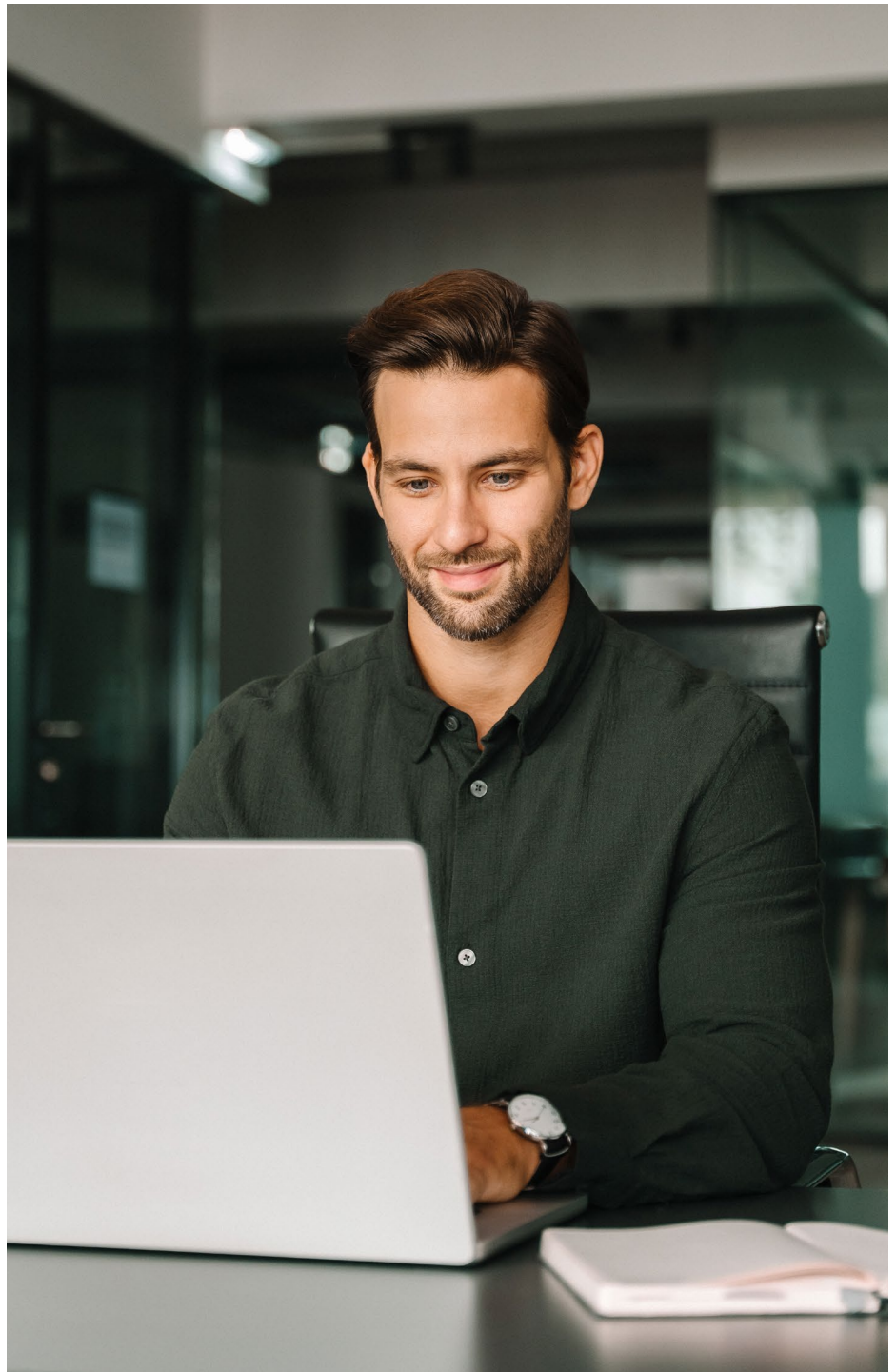
Scope of emissions

Expansion of the scope of emissions to include indirect emissions.

Applying CBAM in conjunction with other sustainability regulations

The CBAM forms part of the EU Green Deal and is designed to help Europe achieve its climate goals while ensuring that companies remain competitive on the global stage. The aim is to combine the CBAM with other regulatory requirements for businesses, such as [digital product passports](#), [European Sustainability Reporting Standards](#) (ESRS), EU Emissions Trading Schemes (EU ETS and [EU ETS2](#)) and the [EU Deforestation Regulation](#) (EUDR).

We encourage companies to capitalise on the potential synergies offered by these regulations. In practice, this may be challenging, as it requires organisational restructuring, specialist expertise and additional technological infrastructure to harmonise data collection, reporting and IT processes. Success in these efforts will not only ensure effective compliance but also empower companies to identify and leverage opportunities in areas from the circular economy to clean technologies.



References

- ¹ The CBAM covers carbon dioxide (CO₂) across all product categories, with the scope extending to nitrous oxide (N₂O) for most fertilisers (excluding ammonia) and perfluorocarbons (PFCs) for aluminium production.
- ² FAZ (2025): [Klimapolitik wird zum Stolperstein für Freihandel](#) [Environmental policy becomes a stumbling block for free trade], accessed on 2 February 2026.
- ³ European Commission (2026): [Free Trade Agreement, Text of the Agreement, ANNEX 14-A Carbon Border Adjustment Measures](#), accessed on 2 March 2026.
- ⁴ European Commission (2026): [The EU-India trade agreement](#), accessed on 10 February 2026.
- ⁵ Deloitte cost estimates based on import volumes: [Eurostat](#) (January–December 2025); CBAM price: Euro 71/tonne (average [EEX](#) futures price for EU ETS allowances, 2 January–16 March 2026); default values: [Commission Implementing Regulation \(EU\) 2025/2621 \[...\] as regards the establishment of default values](#); EU benchmark values: [Commission Implementing Regulation \(EU\) 2025/2620 \[...\] as regards the calculation of the free allocation adjustment to the number of CBAM certificates to be surrendered](#); CBAM factor: 97.5 %; CSCF factor: 1 (assumption).
- ⁶ Wirtschaftsvereinigung Stahl (German Steel Association) (2025): [Facts and Figures about the Steel Industry in Germany](#), accessed on 11 February 2026.
- ⁷ The emissions data relates to goods classified under 7208 of the Harmonised System for the Description and Coding of Goods.
- ⁸ The Implementing Regulation currently stipulates a gradual increase in the mark-up of default values for the product groups aluminium, iron and steel, hydrogen and cement until 2028. The European Commission intends to revise the values by December 2027 at the latest.
- ⁹ European Commission (2025): [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, last accessed on 5 March 2026.

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