

CBAM CLINIC REPORT

An Irish Steel report prepared in association with
David Gilroy, Smart Sustainable Business, October 2025

CBAM Clinic Report - Oct 2025

David Gilroy - Smart Sustainable Business for Irish Steel

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CBAM Client Briefing



Understanding CBAM Liability for Steel Importers

Preamble

This document, derived from our advisory clinics, explains the EU Carbon Border Adjustment Mechanism (CBAM) liability for steel importers, focusing on the **CBAM factor** and its application. It includes a simple calculation and guidance on trade terms (DAP/DDP contracts) and embedded carbon data for CBAM and ESG reporting. Contact us for compliance support.

Disclaimer: This report is for informational purposes only and is not legal or financial advice. CBAM rules may change. Consult experts for compliance. We are not liable for actions based on this report.

1. What is CBAM?

The CBAM ensures non-EU steel importers pay for carbon emissions like EU producers, preventing unfair competition. From 2026–2034, importers buy CBAM certificates to cover emissions, adjusted by the **CBAM factor** (2.5% in 2026 to 100% in 2034), mirroring the phase-out of free EU ETS allowances.

2. The CBAM Factor and Your Liability

The **CBAM factor** determines the percentage of your steel's emissions you pay for via CBAM certificates. It starts at 2.5% in **2026** and reaches 100% by **2034**, aligning with the EU ETS price (e.g., €80/tCO₂).

Simple Example: You import 1,000 tons of steel in 2026, each producing 1 tCO₂. CBAM factor: 2.5%. EU ETS price: €80/tCO₂. No foreign carbon price.

- Emissions to cover: $1 \times 0.025 = 0.025 \text{ tCO}_2/\text{t}$
- Cost: $0.025 \times €80 = €2/\text{t}$
- Total cost: $€2 \times 1,000 = \text{€2,000}$

Costs rise as the CBAM factor increases (e.g., 48.5% in 2030). You can reduce costs with verified emissions or foreign carbon price credits (Regulation (EU) 2023/956, Articles 7, 9).

3. DAP/DDP Contracts and CBAM

- **DAP (Delivery at Place):** Importers pay CBAM costs, report emissions, and buy certificates.
- **DDP (Delivered Duty Paid):** Suppliers handle CBAM costs but may pass them to importers via higher prices.
- **Impact:** Importers need emissions data for DAP compliance or to verify DDP supplier reporting.

4. Recommendation: Collect Carbon Data

All importers should request **embedded carbon data** from suppliers, regardless of DAP/DDP terms, for:

- **CBAM Compliance:** Accurate emissions reduce costs vs. default values.
- **ESG Reporting:** Carbon data is critical for future EU and global sustainability reporting.
- **Support:** We can assist with data collection, CBAM compliance, and ESG reporting.

References

1. Regulation (EU) 2023/956 (EUR-Lex, L 130, 16 May 2023).
2. Directive (EU) 2023/959 (EUR-Lex, L 130, 16 May 2023).
3. European Commission, CBAM FAQs, Nov 2023 (taxation-customs.ec.europa.eu).

Client Briefing Report – October 2025

Understanding CBAM Cost Adjustments and the Role of the CBAM Factor in the Steel Sector



Preamble

This Client Briefing Report arises from discussions in our advisory clinics and is designed to provide importers with a clear understanding of their liabilities under the EU Carbon Border Adjustment Mechanism (CBAM). The report focuses on explaining how CBAM liability is calculated, with particular emphasis on the CBAM factor and its application to importers of carbon-intensive goods, such as steel. It aims to equip clients with practical tools, including calculation templates and simplified explanations, to navigate CBAM compliance effectively.

Additionally, the report addresses the relationship between trade terms (e.g., DAP and DDP contracts) and CBAM liabilities, emphasizing the importance of obtaining embedded carbon information from suppliers for both compliance and Environmental, Social, and Governance (ESG) reporting.

Disclaimer: *This report is provided for informational purposes only and does not constitute legal, financial, or professional advice. The information is based on current EU regulations and market data as of October 2025, but CBAM and EU ETS rules are subject to change. Importers should consult with their legal and compliance experts to ensure adherence to CBAM requirements and verify calculations specific to their operations.*

We are not responsible for any actions taken based on this report or for any inaccuracies in the data provided. For assistance with CBAM compliance, embedded carbon data collection, or ESG reporting, we can provide tailored support—please contact us for further details.

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Executive Summary

The EU Carbon Border Adjustment Mechanism (CBAM) prevents carbon leakage and ensures fair competition between EU and non-EU producers of carbon-intensive goods, such as steel. Importers must purchase CBAM certificates to cover the greenhouse gas emissions embedded in their imported goods.

The number of certificates required is adjusted by the **CBAM factor**, which increases from 2.5% in 2026 to 100% in 2034, mirroring the phase-out of free EU Emissions Trading System (ETS) allowances for EU producers. This aligns carbon costs for importers and EU manufacturers over time.

Importers can reduce CBAM costs by:

- Claiming **foreign carbon price credits** (Article 9, CBAM Regulation), and
- Using **verified actual embedded emissions** instead of default values.

This report provides a comprehensive overview of the CBAM mechanism, its legal basis, calculation examples for the steel industry, the EU ETS free allowance phase-out, and practical guidance on trade terms and ESG reporting requirements. We offer support to help importers comply with CBAM and collect necessary data from suppliers.

1. Legislative and Policy Context

1.1 Legal Foundations

The CBAM is based on:

- **Regulation (EU) 2023/956**, which establishes the CBAM (EUR-Lex, L 130, 16 May 2023).
- **Directive (EU) 2023/959**, which amends the EU ETS Directive 2003/87/EC and introduces the CBAM factor (EUR-Lex, L 130, 16 May 2023).

“The CBAM certificates to be surrendered ... shall be adjusted to reflect the extent to which EU ETS allowances are allocated free of charge ...”

— Article 2(7), Regulation (EU) 2023/956

2. The Role of the CBAM Factor

2.1 Purpose

The CBAM factor determines the share of embedded emissions importers must pay for through CBAM certificates, aligning with the phase-out of free EU ETS allowances for EU producers. It ensures fairness by gradually increasing the carbon cost for importers as EU producers lose free allowances. The table below shows the CBAM factor and free allowance phase-out schedule:

Year	CBAM Factor	Free Allocation Remaining (EU ETS)	Share of Emissions Importers Pay
2026	2.5%	97.5% free	2.5% of emissions
2027	5%	95% free	5% of emissions
2028	10%	90% free	10% of emissions
2029	22.5%	77.5% free	22.5% of emissions
2030	48.5%	51.5% free	48.5% of emissions
2031	61%	39% free	61% of emissions
2032	73.5%	26.5% free	73.5% of emissions
2033	86%	14% free	86% of emissions
2034	100%	0% free	100% (full coverage)

Source: Directive (EU) 2023/959; European Commission, CBAM FAQs (Nov 2023).

3. Benchmarks vs. the CBAM Factor

Concept	Applies to	Function
ETS Benchmark	EU producers	Defines free allowances based on best available technology (top 10% performers).
CBAM Factor	Importers	Determines the proportion of emissions subject to CBAM certificates, reflecting the phase-out of ETS free allocation.

Example Calculations

The table below shows CBAM costs for a steel shipment with embedded emissions of 1.6 tCO₂/t, EU ETS price of €80/tCO₂, and a foreign carbon price credit of €20/tCO₂ (25% of ETS price). The shipment mass is 10,000 t.

Year	CBAM Factor	Certificates (tCO ₂ /t)	Price (€/tCO ₂)	25% Credit Applied (€/t)	Final Cost (€/t)	Total Cost (€/10,000t)
2026	0.025	0.040	€3.20	€2.40	€2.40	€24,000
2030	0.485	0.776	€62.08	€46.56	€46.56	€465,600

Calculation Details for 2030:

- Embedded emissions: 1.6 tCO₂/t
- CBAM factor: 0.485
- Certificates: $1.6 \times 0.485 = 0.776$ tCO₂/t
- Price before credit: $0.776 \times €80 = €62.08$ /t
- Foreign carbon price credit: $€20/€80 = 0.25$; adjusted cost = $€62.08 \times (1 - 0.25) = €46.56$ /t
- Total cost: $€46.56 \times 10,000 = €465,600$

4. EU ETS Free Allowance Phase-Out

Free EU ETS allowances for CBAM-covered sectors (e.g., steel) are phased out from 2026 to 2034, aligning with the CBAM factor's increase. This ensures EU producers and importers face equivalent carbon costs by 2034.

Free allowances are based on product-specific benchmarks (top 10% most efficient installations). The phase-out schedule is:

- **2026:** 97.5% free allowances, EU producers pay for 2.5% of emissions.
- **2030:** 51.5% free allowances, EU producers pay for 48.5% of emissions.
- **2034:** 0% free allowances, EU producers pay for 100% of emissions.

Source: Directive (EU) 2023/959, Annex I. By 2034, EU steel producers and importers pay the full EU ETS price (e.g., €60–€100/tCO₂ based on 2024–2025 market data).

5. Transitional Reporting (2023–2025)

- **Purpose:** Importers report embedded emissions quarterly without surrendering certificates.
- **Activities:** Tests monitoring, reporting, and verification (MRV) systems.
- **Benchmarks:** Used to compare reported emissions against default values.
- **Outcome:** Data informs the definitive CBAM system starting January 1, 2026.

Source: Regulation (EU) 2023/956, Article 35.

6. Implications for the Steel Sector

- 1. Increasing Costs:** The CBAM factor rises annually, achieving full carbon cost parity by 2034.
 - 2. ETS Benchmarks:** Apply only to EU producers for free allocations.
 - 3. Cost Reduction:** Foreign carbon price credits (Article 9) and verified actual emissions (Article 7) reduce CBAM liabilities.
 - 4. Compliance:** Accurate MRV systems and documented foreign carbon payments are critical for cost control and compliance.
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Annex I — Simplified CBAM Calculation Template

A. Formula

$$\text{CBAM Cost (€/t)} = [E_{\text{embedded}} \times F_{\text{CBAM}} \times (1 - C_{\text{foreign}})] \times P_{\text{ETS}}$$

$$\text{Total Cost (€)} = \text{CBAM Cost (€/t)} \times \text{Shipment mass (t)}$$

Where:

- **E_{embedded}** = Embedded emissions (tCO₂/t product)
- **F_{CBAM}** = CBAM factor (0.025 to 1.0, 2026–2034)
- **C_{foreign}** = Foreign carbon price / EU ETS price
- **P_{ETS}** = Average EU ETS price (€/tCO₂)

B. Example Template

Input Variable	Value	Units
Embedded emissions	1.6	tCO ₂ /t
CBAM factor	0.025 (2026)	-
EU ETS price	€80	per tCO ₂
Foreign carbon price	€20	per tCO ₂
Shipment mass	10,000	t

Calculation:

- Certificates: $1.6 \times 0.025 = 0.04 \text{ tCO}_2/\text{t}$
- Cost before credit: $0.04 \times €80 = €3.20/\text{t}$
- Adjusted cost: $€3.20 \times (1 - 0.25) = €2.40/\text{t}$
- Total cost: $€2.40 \times 10,000 = €24,000$

Annex II — Simplified Explanation of the CBAM Factor

What is the CBAM Factor?

The CBAM factor is a percentage that decides how much of the carbon emissions from imported steel you must pay for under the EU's Carbon Border Adjustment Mechanism (CBAM). It starts small and grows each year, matching the reduction in free carbon allowances given to EU steel producers. This ensures importers and EU producers face similar carbon costs over time.

- In 2026: The CBAM factor is 2.5%, so you pay for 2.5% of your steel's emissions.
- By 2034: The CBAM factor is 100%, so you pay for 100% of the emissions.

How Does It Affect Your Liability?

Your liability is the cost of buying CBAM certificates to cover the emissions from making your imported steel.

The CBAM factor determines how much of those emissions you're responsible for. For example:

- If your steel produces 1 ton of CO₂ per ton, and the CBAM factor is 2.5% (2026), you pay for 0.025 tons of CO₂ per ton of steel.
- At an EU carbon price of €80 per ton of CO₂, your cost is $0.025 \times €80 = €2$ per ton of steel (before any foreign carbon price credit).
- For 1,000 tons of steel, that's $€2 \times 1,000 = €2,000$ in 2026.

As the CBAM factor increases (e.g., 48.5% in 2030, 100% in 2034), your liability grows because you pay for a larger share of the emissions.

Simple Example

You import 1,000 tons of steel in 2026, each producing 1 ton of CO₂. The CBAM factor is 2.5%, and the EU carbon price is €80/tCO₂. You paid no carbon price in your home country.

- **Emissions to cover:** $1 \times 0.025 = 0.025$ tCO₂/t.
- **Cost:** $0.025 \times €80 = €2$ /t.
- **Total cost:** $€2 \times 1,000 = €2,000$.

If you paid a carbon price in your home country (e.g., €20/tCO₂), you could reduce this cost (see Annex I).

Key Takeaway

The CBAM factor controls how much of your steel's emissions you pay for, starting at 2.5% in 2026 and reaching 100% by 2034. The higher the factor, the more you pay, unless you can claim credits for carbon prices paid abroad or prove lower emissions.

Annex III — Simplified CBAM Calculation Without Foreign Carbon Price Credit

Explanation

This annex provides a simplified CBAM cost calculation for steel importers when no foreign carbon price is paid (e.g., the steel comes from a country with no carbon pricing system). Without a foreign carbon price, the CBAM cost is higher because no credit is applied to reduce the number of certificates needed.

Simple Calculation Example (No Foreign Carbon Price)

Imagine you import **1,000 tons of steel** in 2026. Each ton produces **1 tCO₂** in emissions. The CBAM factor is **2.5%**, the EU ETS price is **€80/tCO₂**, and **no carbon price** is paid in the steel's home country.

1. **Emissions to cover:** $1 \text{ tCO}_2/\text{t} \times 0.025 \text{ (CBAM factor)} = 0.025 \text{ tCO}_2/\text{t}$.
2. **Cost:** $0.025 \times €80 = €2/\text{t}$ (no foreign credit, so no reduction).
3. **Total cost:** $€2/\text{t} \times 1,000 \text{ t} = €2,000$.

This means you pay €2,000 for the carbon emissions of your steel shipment in 2026, compared to €1,500 with a €20/tCO₂ credit (Annex I).

Key Takeaway

Without a foreign carbon price, importers pay the full CBAM cost based on the embedded emissions, CBAM factor, and EU ETS price. Accurate emissions reporting can still reduce costs if verified emissions are lower than default values.

Annex IV — DAP and DDP Contracts and Their Impact on CBAM Liabilities

Explanation

The terms **Delivery at Place (DAP)** and **Delivered Duty Paid (DDP)** are Incoterms defining responsibilities between buyers (importers) and suppliers in international trade. These terms impact who is liable for CBAM costs when importing steel into the EU.

- **DAP (Delivery at Place):** The supplier delivers the goods to a specified destination in the EU, but the importer is responsible for import duties, taxes, and CBAM obligations. The importer must report embedded emissions and purchase CBAM certificates.
- **DDP (Delivered Duty Paid):** The supplier handles all costs, including import duties, taxes, and CBAM obligations, delivering the goods cleared for import. The supplier is responsible for reporting emissions and purchasing CBAM certificates, though they may pass these costs to the importer through higher prices.

Impact on CBAM Liabilities

- **DAP Contracts:** Importers bear the CBAM liability directly. They must:
 - o Obtain embedded emissions data from suppliers (or use default values).
 - o Report emissions quarterly during the transitional phase (2023–2025) and annually from 2026 (Regulation (EU) 2023/956, Articles 7, 35).
 - o Purchase and surrender CBAM certificates based on the CBAM factor and EU ETS price (Annex I).
 - o Example: For 1,000 t of steel (1 tCO₂/t, 2026, CBAM factor 2.5%, €80/tCO₂, no foreign credit), the importer pays €2,000 (Annex III).
- **DDP Contracts:** Suppliers bear the CBAM liability, as they handle customs clearance and associated costs. However:
 - o Suppliers may include CBAM costs in the contract price, indirectly affecting importers.
 - o Importers must ensure suppliers provide accurate emissions data and comply with CBAM reporting to avoid penalties or disputes.
 - o Example: The supplier pays the €2,000 CBAM cost but may charge the importer a higher price to cover it.

Recommendation: Seek Embedded Carbon Information!

All companies, regardless of whether they use DAP or DDP contracts, should proactively request embedded carbon information from their suppliers. This data (e.g., tCO₂/t of steel) is critical for:

- **CBAM Compliance:** Accurate emissions data allows importers (DAP) or suppliers (DDP) to use verified emissions instead of default values, potentially reducing CBAM costs (Regulation (EU) 2023/956, Article 7).
- **ESG Reporting:** Embedded carbon data is increasingly required for Environmental, Social, and Governance (ESG) reporting, as stakeholders demand transparency on supply chain emissions. Starting now ensures readiness for future regulations (e.g., EU Corporate Sustainability Reporting Directive).
- **Cost Management:** Understanding emissions helps negotiate better terms with suppliers and anticipate CBAM costs, especially as the CBAM factor rises to 100% by 2034.

How We Can Assist

Contact David Gilroy or Pat Enright at Irish Steel to streamline your CBAM compliance and ESG reporting processes.

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**References**

1. Regulation (EU) 2023/956 — Establishing a Carbon Border Adjustment Mechanism (EUR-Lex, L 130, 16 May 2023).
2. Directive (EU) 2023/959 — Amending Directive 2003/87/EC (EU ETS reform) (EUR-Lex, L 130, 16 May 2023).
3. European Commission (DG TAXUD) — CBAM Frequently Asked Questions, Nov 2023 (taxationcustoms.ec.europa.eu).



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