

POLICY PULSE

Navigating the Carbon Border Adjustment Mechanism (CBAM)

What It Means ?

The European Union's Carbon Border Adjustment Mechanism (CBAM) imposes carbon tariffs on imports based on the carbon emissions embedded in their production, ensuring costs align with EU environmental standards. It targets high-emission sectors such as steel, cement, fertilizers, aluminum, electricity, and hydrogen.

It aims to level the playing field by applying the same carbon costs to imports as EU-produced goods to reduce carbon leakage and drive global decarbonization.

CBAM is being implemented in phases, started with a transitional period (**October 1, 2023 – December 31, 2025**), during which importers in covered sectors must report embedded emissions **but face no financial obligations**, focusing instead on data collection to prepare for full implementation.

From January 1, 2026, CBAM will require importers to purchase certificates reflecting the emissions in their goods, with prices linked to the EU Emissions Trading System (EU ETS), allowing deductions for carbon prices paid in the country of origin.

By 2030 and beyond, CBAM is expected to expand to cover all sectors under the EU ETS, accompanied by a phased reduction of free allowances, promoting global decarbonization and preventing carbon leakage.

Industries must monitor these developments closely, as CBAM's phased approach will impact sectors differently based on their emissions profiles and timelines.

Our Network

The CBAM is set to reshape global trade by imposing carbon costs on imports based on their embedded emissions, aligning them with EU environmental standards.

While the initial transitional phase (2023–2025) focuses on data reporting without financial obligations, the definitive phase (Jan 2026) will require importers to purchase CBAM certificates linked to the EU Emissions Trading System (EU ETS).

This mechanism could drive global adoption of carbon pricing policies, incentivize industries to decarbonize, and favor exporters with low-carbon solutions, ultimately influencing supply chains and promoting sustainable trade practices.

The CBAM is poised to impact Egypt's economy, particularly its export sectors. Approximately **20% of Egypt's exports** to the EU are within CBAM's scope, with certain industries being highly exposed. Notably, **79% of Egypt's aluminum exports** are destined for the EU, indicating substantial exposure to CBAM regulations.

In 2021, the EU accounted for **60% of Egypt's fertilizer exports, two-thirds of its aluminum exports**, and over **60%** of its iron and steel exports.

Given the EU's role as a key trading partner, the implementation of CBAM could pose challenges for Egypt's export-dependent industries.

However, it also presents an opportunity for these sectors to adopt sustainable practices, invest in green technologies, and align with global decarbonization efforts, thereby maintaining and potentially enhancing their competitiveness in the international market.

Opportunity

- **Adopt Renewable Technologies:** Transition to energy-efficient processes and integrate renewable energy to reduce emissions.
- **Build Partnerships:** Egypt's collaboration with Germany and the EU on green hydrogen production supports industrial decarbonisation and strengthens its role as a hydrogen hub.
- **Expand Sustainable Exports:** Focus on producing low-carbon goods, opening new markets and meeting global green standards.
- **Access Funding and Incentives:** Utilize international financing mechanisms to support green projects.

Challenges

Implementing CBAM presents several hurdles for Egyptian businesses, especially in high-emission sectors.

- **High Financing Costs:** Green technology investments face capital challenges due to external debt and currency risks.
- **Infrastructure Gaps:** Egypt needs to scale up renewable energy capacity and establish hydrogen production facilities.
- **Policy Adjustments:** Businesses must navigate new reporting standards and carbon accounting requirements under CBAM.
- **Market Diversification:** CBAM could force exporters to redirect carbon-intensive products to non-EU markets, limiting growth.

Call For Action

To turn CBAM challenges into opportunities

- **Invest in Sustainability:** Upgrade technologies, adopt low-emission processes, and leverage renewable energy sources.
- **Engage with Policy Frameworks:** Collaborate with government initiatives and international programs to secure funding and support.
- **Focus on Capacity Building:** Train workforces and develop carbon accounting systems to meet EU standards.
- **Build Strategic Partnerships:** Strengthen alliances with European investors and green technology providers.

Egypt's transition to a greener economy will preserve global market access and establish the country as a leader in sustainable trade, driving economic growth and contributing to global climate goals.