For those following the developments of the **EU CBAM**, there's an important detail in the newly published regulation that may have come as a surprise.
The official CBAM regulation, which came into force on May 17, clarified that indirect emissions will initially be excluded for certain CBAM-covered goods.

Direct vs. indirect emissions per CBAM product

For each of the following products, importers will need to report their emissions (from October 2023), and pay a tax on the product's direct emissions (from January 2026). For some of these products, indirect emissions will also be covered in the carbon tax:

Direct emission:

Aluminum
Steel
Iron
Hydrogen

Direct emission and Indirect emissions :

Fertilizers
Electrical Energy
Cement

Definitions:

Direct = emissions from the non-EU production facility's own operations (for example, the steel mill), including onsite process and combustion emissions, and emissions from heating and cooling.
Indirect = emissions from the generation (onsite and offsite) of electricity used to produce the goods in that non-EU production facility.
For so-called complex goods, some other upstream or downstream emissions will be included in the CBAM. For example, emissions generated in materials processing. According to the current draft proposal (under consultation), this will apply to certain steel and aluminum products.

Missing indirect emissions will be included at a later date

Although indirect emissions are initially excluded for aluminum, steel, iron and hydrogen, the published CBAM regulation commits to including indirect emissions for all CBAM products "as soon as possible".
What does this mean for importers preparing for the costs of the CBAM?

Counting the cost of the CBAM with vs. without indirect emissions

From January 2026, importers will purchase one CBAM certificate per tonne of carbon dioxide equivalent, pegged to the ETS carbon price. Suddenly, importing these emissions-

intensive commodities will become more expensive.
Then, once indirect emissions are introduced into the regulation for all goods, there will be a further sharp cost increase, as reported emissions (and therefore the quantity of CBAM certificates that importers purchase) soar. In aluminum production, the use of electricity is the most significant source of emissions. For steel imports, the impact of including indirect emissions is lower, but still significant, particularly for steel made using electric arc furnaces (EAF).

Based on CarbonChain's analysis:

The estimated initial costs of the CBAM for aluminum imports will increase by 500% (6x) on average once indirect emissions are included, and by up to 800% (9x) for aluminum from certain export countries (South Africa and China).
The CBAM costs for steel imports are set to increase by 9% on average across non-EU countries.

Ignoring indirect emissions — a risky gamble

Importers should take action now to track the indirect emissions of their suppliers' production facilities, and encourage reductions.
Reducing these indirect emissions is primarily achieved through sourcing 100% renewable electricity and upgrading to less carbon-intensive technologies. Measuring and comparing supplier emissions can help you make lower-carbon decisions and get ready for the CBAM changes. For instance, the carbon footprint of 1 tonne of aluminum can vary from 3-20 tonnes of carbon dioxide equivalent (CO_2e) depending on the production process, offering an opportunity to reduce your imported emissions.

If indirect emissions are so important, why aren't they included now?

Despite the importance of addressing these indirect emissions for achieving net zero, the EU has excluded them in the initial CBAM regulation in order to harmonize with the EU ETS in its current form.
At the moment, the EU ETS provides financial mechanisms that compensate companies who are paying more for electricity due to passed-down carbon pricing costs. The EU is unable to put a carbon price on electricity used in foreign production while these financial mechanisms exist within the EU, because the World Trade Organisation (WTO) rules that countries can't put imports at a disadvantage compared to local production.
With its promise to include indirect emissions 'as soon as possible', the European Commission is set to report on their inclusion and methodology before the end of the transitional period (by 2025). Sign up to our Climate Memo for updates.

Source: Carbon Chain