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INTEGRATING NON-EU CARBON CREDITS INTO CARBON BORDER ADJUSTMENT MECHANISM

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ABSTRACT

In its efforts to take the lead in the fight against climate change, the European Green Deal outlines the EU's goal of reducing greenhouse gas emissions by 55% compared to 1990 levels by 2030 and achieving climate neutrality by 2050. To reach this target, the Commission has created the Fit for 55 policy proposals, which include the EU's Carbon Border Adjustment Mechanism (CBAM). This mechanism is crucial in current discussions. It will start its transitional phase from 2023 to 2025, with full implementation beginning in January 2026. CBAM raises important concerns about carbon leakage. The EU's strict carbon reduction policies might push carbon-intensive production to countries with weaker standards. This gap could seriously undermine global climate efforts. CBAM is linked to the EU Emission Trading System, which operates on a cap-and-trade basis. In this system, polluters pay for emissions by purchasing allowances. While CBAM does allow deductions for mandatory carbon prices paid in the country of origin, it currently ignores non-EU carbon credits, especially those from voluntary carbon markets and Paris Agreement Article 6 credits. As the transitional phase comes to an end, it is vital to examine the legal and technical feasibility of integrating these options.At the core of CBAM policy (Regulation EU 2023/956), lies an integration of provisions of the Paris Agreement, including the use of internationally transferred mitigation outcomes, and the emerging Article 6 Baku guidelines, It evaluates three pathways — direct acceptance of Article 6.2 mitigation outcomes, limited recognition of Article 6.4 credits, and bilateral linking agreements — against the requirements of environmental integrity, avoidance of double counting, and non-discrimination under WTO and UNFCCC law.

This paper aims to analyse the integration of Non-EU carbon credits into CBAM while addressing the complexities and nuances entrenched and obligations imposed within associated international laws, including provisions of GATT, Paris Agreement and Article 6 Baku guidelines. The integration of Non EU carbon credits is beneficial yet precarious, considering developing countries reliant on carbon financing and its economical leverage for market players. Conversely, It also presents the risks of carbon leakage and greenwashing. An

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enhanced and carefully designed CBAM framework presents a less trade restrictive and more WTO-compliant approach, capable of transforming the policy into the world's largest automatic climate-finance instruments.

Keywords: CBAM, Carbon leakage, Non-EU carbon credits, Paris Agreement, WTO compliance

1. Introduction: CBAM under the European Green Deal to drive global climate neutrality.

The European Green Deal (EGD) outlined the European Union's mission to decarbonize, reach net zero emissions, and use resources sustainably. This important step came from the EU's international commitments and ongoing global climate action efforts. The EU ratified the Paris Agreement on 5 October 2016. This treaty is legally binding under the UN Framework Convention on Climate Change (UNFCCC) and went into effect on 4 November 2016. The European Commission also highlights decarbonization as a key way to drive economic growth. Ursula von der Leyen, President of the European Commission, emphasized the need for Europe to achieve climate neutrality by 2050 during her Opening Statement as a candidate in the European Parliament plenary session. She aims to cut CO2 emissions by 50% or even 55% by 2030, positioning the European Union as a leader in the fight against climate change.[1]

The EGD, launched by President von der Leyen in 2019, targets to achieve climate neutrality through the European Climate Law. The EU Carbon Border Adjustment Mechanism (CBAM) was first formally introduced by the European Commission on 14 July 2021. This was introduced as a part of the "Fit for 55" legislative package, under the broader European Green Deal framework.[2]

The CBAM enhances the EU's climate action by encompassing carbon pricing in imported goods. It ensures uniform carbon pricing for goods produced outside and within the borders of the EU. This step stands crucial in the EU's goal to be at the forefront of climate action, while

[1] Ursula von der Leyen, President, European Commission, Opening Statement in the European Parliament Plenary Session (July 16, 2019), https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_19_4239 (accessed Dec. 1, 2025)..

[2] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, The European Green Deal, COM (2019) 640 final (Dec. 11, 2019).

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enabling global climate neutrality, as reduction of emissions in domestic production without consideration of emissions attached to imports undermines the total efforts.[3] This commitment is also in line with the Paris Agreement's goal to limit the temperature increase to 1.5°C above pre-industrial levels.

CBAM specifies carbon leakage as a primary concern, which involves transfer of emissions for one country to another in pursuit of weaker and laxer climate and emission policies due to costs attached with cutting emissions thereby jeopardizing EU's mission to spearhead climate neutrality.[4] In light of this EU's free allocation system seeks to balance trade intensity performance benchmarks enabling efficient installations.[5] Recital 9 of the CBAM (Regulation EU 2023/956) discusses this persistent issue as the primary objective of CBAM.[6] While the framework provides for deduction under mandatory pricing paid in other countries where they were subjected to EU ETS.[7] This displays the current exclusion of Non EU credits such as voluntary markets and ITMOs. Such an exclusion generates tensions with Paris Agreement provisions such as, Article 6 of the Paris Agreement which specifies global cooperation as a significant step towards achieving nationally determined contributions (NDCs), to enable economic and efficient NDCs like emission reductions. Article 6.2 specifies ITMOs which primarily feeds carbon financing and green projects in developing nations in exchange for credits for emissions[8] and Article 6.4 emphasizes a centralized supervisory authority to enhance this system.[9] This provides a double-edged sword by unlocking billions in carbon financing, However if not precisely and meticulously used it can lead to green washing and carbon leakage. Yet, by omitting these mechanisms, CBAM risks undermining the cooperative ethos of Article 6, which aims to mobilize finance for developing countries' Nationally Determined Contributions (NDCs) while upholding common but differentiated responsibilities (CBDR). This rigidity increases equity risks, especially for developing economies that depend on carbon finance for low-carbon transitions. Countries in sub-Saharan Africa and Southeast Asia rely on

[3] Council Regulation 2023/956, Establishing a Carbon Border Adjustment Mechanism, recital 8, 2023 O.J. (L 130) 52.
[4] European Commission, Carbon Leakage, https://climate.ec.europa.eu/eu-action/carbon-markets/eu-emissions-trading-system-eu-ets/free-allocation/carbon-leakage_en (accessed Dec. 1, 2025).
[5] Bert Metz et al., Mitigation from a Cross-Sectoral Perspective § 11.7.2 Carbon Leakage, in Climate Change 2007: Mitigation of Climate Change: Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change 652 (Bert Metz et al. eds., 2007), https://www.ipcc.ch/site/assets/uploads/2018/02/ar4-wg3-chapter11-1.pdf (accessed Dec. 1, 2025).
[6] CBAM Regulation (n 3), recital 9.
[7] Ibid, recital 16.
[8] Paris Agreement (adopted 12 December 2015, entered into force 4 November 2016) art 6(2) accessed 1 December 2025.
[9] Ibid, Art 6(4)

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voluntary credits to fund renewable projects and afforestation. They face larger compliance burdens leading up to raising export costs by 10-20% in carbon-intensive sectors like steel and cement, without any access to EU markets or technical help. Without integration, CBAM could unintentionally worsen global inequalities. It could create gaps in climate governance and discourage the very innovation it aims to promote, as exporters focus on short-term trade changes instead of sustainable investments. This situation underscores the need for diplomatic reforms to ensure that CBAM aligns with fair, Paris-compliant pathways.[10]

2. Research Problem

This research aims to explore how non-EU carbon credits can fit into the EU's Carbon Border Adjustment Mechanism (CBAM). It addresses existing limitations and critically examines strategies for global climate cooperation. The transitional phase ends on 31 December 2025, with the final regime starting on 1 January 2026. Recent updates, like the Omnibus I amendments (Regulation (EU) 2025/2083, effective October 2025), introduce de minimis thresholds and simplified reporting. These changes refine CBAM's operational framework but keep the exclusion intact to maintain environmental integrity and consistency with the EU Emissions Trading System (ETS). A report from the Commission is due on 31 December 2025 on transitional operations and third-country measures. This gives a timely chance to look at paths for reform.

A main goal is to assess the legal and technical feasibility of including high-integrity non-EU credits. We propose three pathways: direct acceptance of Article 6.2 mitigation outcomes through bilateral agreements, limited recognition of Article 6.4 credits under centralized oversight, and expanded bilateral linking. This analysis will check these methods against requirements to avoid double-counting and ensure solid monitoring, reporting, and verification (MRV) as per the 2024 Baku rules. It will also consider non-discrimination under WTO law (for example, GATT Articles I and XX) and UNFCCC principles. Building on the August 2025 call for evidence regarding third-country carbon price deductions, the study aims to identify safeguards that connect CBAM with the cooperative mechanisms of the Paris Agreement without jeopardizing anti-leakage efforts.

[10] Erkan Erdogdu, The Carbon Border Adjustment Mechanism: Opportunities and Challenges for Non-EU Countries, 14 WIREs Energy & Env't e70000 (2025), https://doi.org/10.1002/wene.70000 (accessed Dec. 1, 2025).

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3. Background: CBAM Framework and Recent Developments

3.1. CBAM Overview

The European Union's Carbon Border Adjustment Mechanism (CBAM) was established under Regulation (EU) 2023/956 on 10 May 2023. It is a key part of the "Fit for 55" package within the European Green Deal, aiming for at least a 55% reduction in net greenhouse gas emissions by 2030 compared to 1990 levels and climate neutrality by 2050.[11] According to Recital 9, CBAM's main goal is to prevent carbon leakage, which happens when carbon-intensive production moves to places with weaker climate policies. This approach ensures that the EU's emission reductions are not compromised by higher embedded emissions in imports.[12] The mechanism sets a carbon price on imports equivalent to that of the EU Emissions Trading System (ETS). This promotes fair competition and encourages global efforts to reduce emissions without simply shifting them to other countries.

CBAM runs in two phases. The transitional phase, from 1 October 2023 to 31 December 2025, requires authorized declarants (importers or their representatives) to submit quarterly reports on embedded emissions in covered goods through a centralized Transitional Registry, with no financial obligations.[13] Embedded emissions include direct emissions from production processes, such as fuel combustion, and indirect emissions from electricity use.[14] These emissions are calculated using actual data when available or default values published by the Commission. Non-compliance can lead to penalties of €10 to €50 per tonne of unreported emissions, as outlined in the Commission's CBAM Q&A guidance (European Commission, 2023).[15] Initially covered sectors include cement, iron and steel, aluminum, fertilizers, electricity, and hydrogen, selected for their high risk of carbon leakage and energy intensity. This list may expand to match the EU ETS scope.[16] Starting from the definitive phase on 1 January 2026, importers must annually surrender CBAM certificates (one per tonne of CO_2 equivalent) by 31 May. These certificates will cost the weekly average EU ETS auction price,

[11] Council Presidency, Compromise Text: Proposal for a Regulation of the European Parliament and of the Council Establishing a Carbon Border Adjustment Mechanism (CBAM) (Dec. 14, 2022), https://data.consilium.europa.eu/doc/document/ST-XXXX-2022-INIT/en/pdf (accessed Dec. 1, 2025).
[12] CBAM Regulation (n 3), recital 8.
[13] European Commission, Directorate-General for Taxation & Customs Union, Guidance Document on CBAM Implementation for Importers of Goods into the EU (Nov. 21, 2023), https://taxation-customs.ec.europa.eu/system/files/2023-11/CBAM%20Guidance_EU%20231121%20for%20web_0.pdf (accessed Dec. 2, 2025).
[14] CBAM Regulation (n 3), recital 19.
[15] European Commission, Carbon Border Adjustment Mechanism (CBAM) – Questions and Answers (Oct. 24, 2024) (accessed Dec. 2, 2025).
[16] SAP, What Is the EU's Carbon Border Adjustment Mechanism (CBAM)? (2024), https://www.sap.com/resources/cbam-carbon-border-adjustment-mechanism (accessed Dec. 2, 2025).

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currently ranging from €70 to €100 per tonne. This is directly tied to the EU ETS (Recitals 20–22) where certificates cannot be traded to uphold integrity. This phase will also phase out free ETS allowances for exposed sectors, which levels the playing field for EU producers (Directive 2003/87/EC, as amended).

3.2. Exclusion of Non-EU Credits

A key aspect of CBAM is that it does not allow for non-EU carbon credits. This includes voluntary market offsets and Internationally Transferred Mitigation Outcomes (ITMOs) under Article 6 of the Paris Agreement.[17] Article 9 permits reductions in CBAM certificates only for "carbon prices due" that are effectively paid and not rebated under mandatory systems in the country of origin, such as national ETS or carbon taxes approved by the Commission.[18] This narrow focus limits reductions to explicit, regulatory payments and specifically excludes voluntary credits, which do not have the same mandatory nature and verifiability as EU ETS allowances. This aims to avoid double-counting and maintain environmental integrity[19]. This design prioritizes equivalence with EU ETS standards, where offsets are banned to enforce a strict cap on emissions, preventing any risk of weakening ambitions through unverified reductions.[20]

This exclusion aligns with CBAM's goal of preventing leakage but raises questions about compliance with WTO law. It may discriminate against non-EU producers without equivalent mandatory systems, which could violate GATT non-discrimination principles (Articles I and III)[21]. While this approach is effective in reducing leakage, its rigidity might increase EU ETS quota prices, worsening competitiveness losses for downstream sectors.[22] For non-EU countries, voluntary credits and ITMOs are essential for funding green transitions in developing economies.[23] Their exclusion risks placing a heavy burden on exporters without promoting innovation.

[17] Paris Agreement (n 8), art 6.
[18] Ibid, art 9.
[19] CBAM Regulation (n 3), recital 15.
[20] Timothé Beaufils et al., Assessing Different European Carbon Border Adjustment Mechanism Implementations and Their Impact on Trade Partners, 4 Communs. Earth & Env't 131 (2023), https://doi.org/10.1038/s43247-023-00788-4 (accessed Dec. 2, 2025).
[21] Cecilia Bellora & Lionel Fontagné, EU in Search of a WTO-Compatible Carbon Border Adjustment Mechanism (CEPII Working Paper No. 2022-01, May 2022), https://www.cepii.fr/PDF_PUB/wp/2022/wp2022-01.pdf (accessed Dec. 2, 2025).
[22] T. Petrova, EU Carbon Border Adjustment Mechanism: Legal Challenges and Relevance in Light of the Current Sanctions Regime, 1(1) HSE U. J. Int'l L. 71 (2023), https://doi.org/10.17323/jil.2023.17450.
[23] Erdogdu, 'Carbon Border Adjustment Mechanism' (n 10).

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3.3. Recent Developments

CBAM's framework has changed through targeted updates to tackle implementation challenges and respond to stakeholder feedback, especially as the transitional phase approaches its end on 31 December 2025. The Omnibus I package, adopted on 8 October 2025 as Regulation (EU) 2025/2083, introduces simplifications to ease administrative burdens. This includes mass-based de minimis thresholds, where consignments under 50 tonnes annually exempt about 90% of small importers while covering 99% of emissions.[24] It also enhances support for SMEs. These changes, which broaden coverage to indirect emissions and downstream products. This could raise priced emissions from 83 Mt CO_2 (the conservative initial estimate) to between 328 and 490 Mt CO_2, while still excluding credits to maintain rigor.[25]

Finally, the Commission's mandated report under Article 31, due 31 December 2025, will evaluate transitional operations and third-country equivalence. This includes pilot projects for Article 6 ITMOs based on the August 2025 call for evidence. Previews indicate that there may be phased recognition of mechanisms with high integrity, such as bilateral Article 6.2 agreements, to address WTO criticisms and equity gaps.[26]

4. Legal and Technical Feasibility: Pathways for Integration

The legality of integrating CBAM primarily lies in Article 6 of the Paris Agreement, which provides for creating a framework for voluntary cooperation to meet Nationally Determined Contributions (NDCs) through market-based mechanisms. Article 6.2 allows for multilateral or bilateral cooperations through Internationally Transferred Mitigation Outcomes (ITMOS), thereby ensuring prevention of double counting, environmental integrity, and transparency.[27] This aligns with CBAM's requirement for verifiable deductions under Article 9.

This allows high-integrity ITMOs from non-EU exporters to offset emissions while reducing CBAM charges, alongside facilitating the channeling of carbon financing to developing countries under the Common but Differentiated Responsibilities (CBDR) framework. Article 6.4 establishes a centralized UN-supervised mechanism for crediting mitigation activities. It

[24] International Carbon Action Partnership, EU Adopts Simplifications to CBAM Rules Ahead of Compliance Phase Starting 2026 (Oct. 20, 2025), https://icapcarbonaction.com/en/news/eu-adopts-simplifications-cbam-rules-ahead-compliance-phase-starting-2026 (accessed Dec. 2, 2025).

[25] Beaufils and others, 'Assessing different European CBAM implementations' (n 20).

[26] European Commission, Q&A on Simplification Omnibus I and II (2025), https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_615 (accessed Dec. 2, 2025).

[27] Asian Development Bank, Decoding Article 6 of the Paris Agreement – Version II (2020), https://www.adb.org/sites/default/files/publication/664051/article6-paris-agreement-v2.pdf (accessed Dec. 3, 2025).

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generates standardized outcomes overseen by the Supervisory Body to ensure additionality, proportionality, and permanence. This development from the Clean Development Mechanism provides safeguards. The COP29 approvals in Baku, in November 2024, also contribute to strengthening the operational framework, endorsing UN-led guidelines for the carbon market, following over three years of negotiation. This effectively replaces the Clean Development Mechanism developed during the Kyoto era with a centralized system for trading mitigation units. The core focus is on enhancing integrity to boost demand and prices in weak voluntary markets, such as Nature-Based Avoidance credits, priced at $4.35 per metric ton of CO_2e. COP29 President Mukhtar Babayev said this new tool directs resources to developing nations. It also addresses greenwashing concerns through consensus-based approvals and compromise, including warnings against subsidiary overreach. This sets the stage for Article 6 pilots in the December 2025 review of the Carbon Border Adjustment Mechanism (CBAM).[28]

The EU's CBAM, outlined in Article 9 of the Commission's proposal, has a strict "equivalence" requirement for accepting foreign carbon pricing mechanisms. This rule allows importers to reduce the number of CBAM certificates they must submit if they demonstrate that a clear carbon price, such as a tax or ETS allowance, has already been paid in the country of origin for the emissions included in the imported goods.

This highlights the EU ETS's economic burden resulting from a narrow focus on financial equivalence. It overlooks implicit measures, such as regulatory standards and energy-efficient requirements. The Impact Assessment Report also states that this mechanism aims to level the playing field for carbon costs between domestic and foreign producers. However, there remain underlying environmental risks if consideration is not provided to diverse climate policies.[29] However, critical examination shows that equivalence doesn't promote international cooperation.[30] In contrast, WTO GATT Article XX provides a more flexible framework for environmental exceptions, which could facilitate the integration of non-EU carbon credits into

[28] Eklavya Gupte & Ivy Yin, COP29: Rules for UN-Led Carbon Market Under Article 6.4 Approved in Baku (Nov. 11, 2024), https://www.spglobal.com/commodity-insights/en/news-research/latest-news/energy-transition/111124-cop29-rules-for-un-led-carbon-market-under-article-64-approved-in-baku (accessed Dec. 3, 2025).

[29] Commission Staff Working Document, Impact Assessment Report Accompanying the Proposal for a Regulation of the European Parliament and of the Council Establishing a Carbon Border Adjustment Mechanism, at 84, SWD (2021) 643 final (July 14, 2021), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021SC0643 (accessed Dec. 3, 2025)

[30] Carbon Market Watch, 10 Key Principles for a Carbon Border Adjustment Measure (CBAM) (Oct. 29, 2020), https://carbonmarketwatch.org/wp-content/uploads/2020/10/10-Key-Principles-for-a-Carbon-Border-Adjustment-Measure-CBAM_CMW.pdf (accessed Dec. 3, 2025).

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the CBAM without strictly adhering to Article 9's equivalence standard.

Under GATT Article XX(b) and (g), measures necessary to protect human, animal, or plant life or health, or to conserve exhaustible natural resources, may be justified if they meet the chapeau's requirements against arbitrary or unjustifiable discrimination and disguised trade restrictions. This allows for differences based on environmental effectiveness rather than strict economic equality, as seen in cases like US-Shrimp, where process-based measures were upheld if they were non-discriminatory and focused on real conservation.[31] Incorporating non-EU credits, such as those from REDD+ or Article 6 ITMOs, could be presented as improving global mitigation under GATT XX(g) by recognizing verifiable emission reductions abroad that help conserve the atmosphere as an exhaustible resource.[32] Unlike CBAM Article 9's emphasis on cost equalization, GATT XX highlights policy goals, allowing the EU to modify CBAM for credits that demonstrate additionality and integrity, as suggested in Carbon Market Watch's principles for WTO compatibility and environmental integrity.[33]

This contrast highlights a potential approach to integrating CBAM: modifying it to include a broader equivalence test under GATT XX that prioritizes environmental outcomes over strict economic equivalence. For example, allowing offsets from high-quality non-EU markets could balance industrial fairness with climate ambition, as analyzed in studies of international carbon markets.[34] This approach would require safeguards, such as strong verification through the Paris Agreement's transparency framework, to meet the chapeau's non-discrimination test. It would ensure that differentiation aligns with CBDRRC without favoring specific trading partners. This not only strengthens legal feasibility under WTO rules but also addresses technical challenges by using existing crediting mechanisms, potentially lessening CBAM's administrative burden while increasing global emission reductions.[35] [36]

[31] Ilaria Espa, Reconciling the Climate/Industrial Interplay of CBAMs: What Role for the WTO?, 116 AJIL Unbound 191 (2022), https://doi.org/10.1017/aju.2022.35 (accessed Dec. 3, 2025).
[32] Giulia Claudia Leonelli, Export Rebates and the EU Carbon Border Adjustment Mechanism: WTO Law and Environmental Objections, 56 J. World Trade 963 (2022), https://doi.org/10.54648/TRAD2022040 (accessed Dec. 3, 2025).
[33] Carbon Market Watch, 10 Key Principles for a Carbon Border Adjustment Measure, (n30).
[34] Pedro Piris-Cabezas et al., Estimating the Potential of International Carbon Markets to Increase Global Climate Ambition, 167 World Dev. 106257 (2023), https://doi.org/10.1016/j.worlddev.2023.106257 (accessed Dec. 3, 2025).
[35] Espa, 'Reconciling the Climate/Industrial Interplay of CBAMs', (n 32).
[36] Marín Durán, 'Securing Compatibility of Carbon Border Adjustments', (n 31).

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4.1. Pathway 1: Direct Acceptance of Article 6.2 ITMOs

Direct acceptance of mitigation outcomes under Article 6.2 of the Paris Agreement provides a way to integrate non-EU carbon credits into CBAM. This process relies on cooperative agreements where countries authorize and transfer Internationally Transferred Mitigation Outcomes (ITMOs) toward their NDCs. It involves agreements between governments for verifiable emission reductions, such as those from renewable energy or afforestation projects in developing countries. National inventories need adjustments to avoid double-counting. The legal feasibility depends on the European Commission's Article 31 report, which is due on December 31, 2025. This report will evaluate third-country measures for equivalence and includes Article 6 pilots based on the August 2025 call for evidence. After the report, changes to Regulation (EU) 2023/956 could allow ITMO deductions under Article 9, treating them as "effectively paid" mandatory equivalents if they meet the Baku 2024 rules for solid MRV and transparency.

The main advantage is that it aligns with common but differentiated responsibilities (CBDR), directing finance to the Global South. This could mobilize $100-300 billion each year for NDCs while reducing CBAM charges for exporters using voluntary-like credits. For example, countries in sub-Saharan Africa could offset steel production emissions with ITMO-financed clean technology, which could help alleviate the 10-20% export cost increases.[37] This process promotes fair transitions, However, there are risks, such as double-counting if adjustments fail, which could harm CBAM's integrity and increase EU ETS prices by up to 20%.[38] There also exists WTO challenges under GATT Article III if there is discrimination against non-partners.[39] Technically, the "bubble approach" could aggregate site-level emissions, allowing ITMOs to balance against total emissions. HFW's 2025 proposals suggest phased deductions, starting at 20% in 2026 for verified ITMOs, through bilateral gateways, balancing risks with trials to evaluate scalability.

4.2. Pathway 2: Limited Recognition of Article 6.4 Credits

Article 6.4 provides a way to integrate CBAM through the UN-supervised crediting mechanism. This mechanism generates standardized, high-quality credits like those found in voluntary markets, but with strict oversight from a Supervisory Body. It ensures additionality, permanence, and sustainable development, with final rules set for 2024 that will cover annual

[37] Beaufils and others, 'Assessing different European CBAM implementations' (n 20).
[38] Bellora and others, 'EU in Search of a WTO-Compatible Carbon Border Adjustment Mechanism', (n 21).
[39] Petrova and others,'EU Carbon Border Adjustment Mechanism: Legal Challenges and Relevance in Light of the Current Sanctions Regime' (2023), (n 22).

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reviews and grievance processes. Feasibility after the 2025 report may include limited recognition, such as 30% of deductions under Article 9.[40] This classification would treat Article 6.4 units as equal to mandatory prices if they meet EU ETS benchmarks. The Commission has mentioned this in its evidence call.[41]

The Omnibus I simplifications in Regulation (EU) 2025/2083 will assist by streamlining MRV through digital tracking in the Transitional Registry. This will reduce administrative burdens for small and medium enterprises and help verify credits.[42]

Legally, this method supports WTO non-discrimination principles, as uniform eligibility avoids arbitrary barriers. Limited inclusion could address 328-490 Mt CO_2 in indirect or downstream emissions, sending EU prices multilaterally without risks of retaliation.[43] Technically, changes to default values in December 2025, such as reducing aluminum benchmarks by 10% phased mark-ups, will allow incorporating credits into calculations. This includes deducting verified Article 6.4 units from Scope 2 electricity emissions, promoting fairness and enabling low-income exporters to obtain pre-approved credits for afforestation without excessive burdens.[44]

The advantages include better integrity compared to purely voluntary markets. This increases demand for credits, with a price of \$4.35/mtCO_2e for nature-based credits, and directs funds to vulnerable countries, in line with CBDR.[45] Phased pilots, starting in 2026, could tackle this by utilizing centralized tracking for seamless integration.

4.3. Pathway 3: Bilateral Linking Agreements

Bilateral linking agreements expand CBAM integration by connecting non-EU emissions trading systems (ETS) to the EU ETS. This is modeled on the EU-Switzerland linkage that has been effective since 2020. Here, mutual recognition means compliant exports are exempt from

[40] Roger Spitz & James Balzer, Climate Foresight: Transforming the Voluntary Carbon Markets (World Econ. Forum, Global Foresight Network Case Study, Mar. 2025), https://reports.weforum.org/docs/WEF_Climate_Foresight_2025.pdf (accessed Dec. 5, 2025).

[41] Francesco Clora et al., Alternative Carbon Border Adjustment Mechanisms in the European Union and International Responses: Aggregate and Within-Coalition Results, 174 Energy Pol'y 113454 (2023).

[42] Accountancy Europe, Omnibus Explained: Key Changes to CBAM (Mar. 2025), https://accountancyeurope.eu/wp-content/uploads/2025/03/250226-Omnibus-CBAM.pdf (accessed Dec. 5, 2025).

[43] Justus Böning et al., Benefits and Costs of the ETS in the EU, a Lesson Learned for the CBAM Design (Eur. Cent. Bank Working Paper Series No. 2764, Jan. 2023), https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2764~3ff8cb597b.en.pdf (accessed Dec. 5, 2025).

[44] Håkan Nordström, Does the Risk of Carbon Leakage Justify the CBAM? (Eur. Univ. Inst. Robert Schuman Ctr. for Advanced Stud. Working Paper No. RSC 2023/08, 2023), https://cadmus.eui.eu/bitstream/handle/1814/75367/RSC_WP_2023_08.pdf (accessed Dec. 6, 2025).

[45] Fausto Corvino, The Compound Injustice of the EU Carbon Border Adjustment Mechanism (CBAM), 28 Ethics Pol'y & Env't 26 (2025), https://doi.org/10.1080/21550085.2023.2272237 (accessed Dec. 17, 2025).

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CBAM charges. Feasibility after the 2025 report may allow for the incorporation of credits through pilots in 2026, modifying Article 9 to treat linked-scheme allowances as "mandatory prices," building on Article 6.2 for ITMO flows. This method is suitable for ambitious partners like the UK, as it aligns with post-Brexit CBAM, or California, permitting easy deductions for verified offsets.[46]

Challenges include administrative burdens. Aligning MRV across jurisdictions could lead to delays and costs. These could violate WTO transparency under GATT Article X. Technically, revised benchmarks in December 2025, such as adjustments to steel emissions, present sector-specific opportunities, allowing linked credits to balance against defaults and reduce leakage by 15-25%.[47]

Many opportunities exist: Pilots could gradually extend credit opportunities, encouraging innovation in the aluminum sector through shared verifiers. Overall, this pathway balances rigor with collaboration, as long as capacity-building addresses the associated burdens.

5. Future Scope

To implement the integration of non-EU carbon credits into CBAM after the Commission's report on December 31, 2025, a tiered eligibility framework is recommended. This framework should focus on high-integrity methods to maintain environmental standards and fairness worldwide. First, phased recognition should start with Article 6.2 ITMOs for bilateral transfers.[48] This allows verified results from cooperative approaches to qualify for deductions under Article 9 of Regulation (EU) 2023/956. It utilizes the 2024 Baku approvals for the UN-led Article 6.4 market, enabling direct offsets for exporters in carbon-intensive sectors while requiring adjustments to prevent double-counting. Tiering could initially limit deductions to 20-30% for ITMOs and expand to Article 6.4 centralized credits by 2027 to address indirect emissions without significantly increasing EU ETS prices.[49]

Second, take advantage of the changes in 2025, which include the Omnibus I simplifications (Regulation (EU) 2025/2083) for de minimis thresholds and centralized reporting, as well as December benchmark updates to enhance MRV technology.[50] Digital tracking in the

[46] Guilherme R. Magacho et al., Impacts of the CBAM on EU Trade Partners: Consequences for Developing Countries, 24 Climate Pol'y 243 (2024).
[47] Beaufils and others, 'Assessing different European CBAM implementations' (n 20).
[48] Kishor Rajhansa & Yousef Al Horr, Role of Regional Carbon Markets in Article 6.2 of Paris Agreement (Global Carbon Council 2019).
[49] Michael A. Mehling & Robert A. Ritz, Going Beyond Default Intensities in an EU Carbon Border Adjustment Mechanism (Univ. of Cambridge Faculty of Econ. Working Paper No. 2087, 2020).
[50] EY, EU Adopts CBAM Omnibus Regulation (Oct. 22, 2025), https://www.ey.com/en_gl/technical/tax-alerts/eu-adopts-cbam-omnibus-regulation (accessed Dec. 6, 2025).

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Transitional Registry could verify credits using methods similar to blockchain. This would lessen administrative burdens for SMEs and support site-level netting.

Third, establish an equity fund from CBAM certificate revenues to assist transitions in the Global South. This fund would recycle proceeds for capacity-building in vulnerable exporters, including those in sub-Saharan Africa and Southeast Asia.

6. Conclusion

CBAM has the potential to transform the landscape as the world's largest automatic climate finance tool. However, integrating non-EU credits thoughtfully is crucial. By leaving out voluntary markets and Article 6 ITMOs/credits, the current setup risks increasing carbon leakage issues and geopolitical tensions. This situation places additional pressure on developing economies that depend on carbon finance.[51] On the other hand, pathways based on Paris Article 6, with Baku's approvals for centralized systems, offer a compliant way forward that aligns with the Paris Agreement. This approach can direct billions towards NDCs while ensuring integrity and adhering to WTO rules.

The upcoming 2025 report and the 2026 definitive phase present a key opportunity for legislative action.[52] Implementing tiered frameworks, improving MRV, and setting up equity funds could align EU goals with global cooperation. This strategy would help decrease leakage without impacting trade. Policymakers must take strong action in 2026 to realize CBAM's potential. They can foster innovation, encourage fair sustainability, and support unified climate governance. The aim is to make sure this mechanism advances the 1.5°C pathway instead of obstructing it.

[51] Meera Gopal & Kate Logan, Asia's Climate Finance Needs & Opportunities: Advancing a Shared Vision (Asia Soc'y Pol'y Inst., June 2024).
[52] International Carbon Action Partnership, EU Adopts Simplifications of CBAM Rules Ahead of the Compliance Phase Starting in 2026 (Oct. 20, 2025).