

TaPP Insight
CBAM Omnibus
What implications for the UK?

TaPP network held a discussion on 22nd May 2025, to explore the EU Commission's new [Omnibus simplification](#) of the Carbon Border Adjustment Mechanism (CBAMs), its implications, and what lessons the UK might draw from it. We were joined by expert speakers, L. **Alan Winters CB** ([University of Sussex, CITP](#)), **Nicolas Lockhart** ([Sidley Austin LLP](#)) and **Juhi Sud** ([VVGB Law](#)), and chaired by **Gregory Messenger** ([University of Bristol](#)).

This insight note is a summary of presentations and discussions of the day. Questions and answers were taken under Chatham House Rules.

1. New Thresholds, New Trade-offs – *L. Alan Winters CB*

The EU's CBAM continues to evolve as policymakers respond to feedback from industry and international partners, with a recent set of changes bundled in the "CBAM Omnibus".

CBAM policy reflects an attempt to resolve a fundamental tension known as the Carbon Leakage Trilemma: how to balance environmental ambition, international equity, and technical feasibility. Pushing toward one tends to make the others harder to achieve. For example, raising climate ambition through stricter import rules can create disproportionate burdens for developing countries or small firms. Likewise, designing a technically simple system often means compromising on accuracy or fairness.

A central feature of the new CBAM framework is the revised **threshold for inclusion**. Originally based on the value of imports, the threshold is now defined in terms of "mass" (value / price), specifically, 50 tonnes of regulated goods per year. This replaces the EU's previous benchmark of an import value, still used by the UK where the threshold is £50,000. The EU's 50 tonnes threshold aims to capture 99% of emissions while excluding around 90% of importers. While this simplifies enforcement, it also means that some high-emission goods from low-volume importers may escape scrutiny.

Value and mass thresholds are both are proxies for what ultimately matters - **emissions**. Ideally, the CBAM threshold would be based on emissions directly. That requires knowing the **carbon intensity** of imported goods, but it would have been relatively straightforward to set up such a conversion for types of goods, which is monitored and tracked already.

The Omnibus regulation includes other significant changes. Firms may now rely on **default emissions values** without verification, a practical concession given the administrative burden of full compliance. The requirement for firms to hold CBAM certificates in advance has also been lowered from 80% to 50%. Importers can now claim credit for carbon prices paid in third countries, a recognition of efforts by trading partners to decarbonise their own production.

The EU has also responded to concerns about data granularity. Firms are now allowed to report **average emissions intensity** at the product or facility level, rather than on a per-shipment basis. This is a notable shift away from the initial vision of precise, shipment-level carbon accounting, but it reflects industry and parliamentary feedback about feasibility.

Critics argue that these changes reduce the incentive for exporters to improve the carbon performance of individual product lines. Nonetheless, they represent a more manageable model—particularly for firms in countries with limited emissions reporting infrastructure.

But the EU has not moved to change CBAM framework to improve equity, for which should be strongly in favour. For **developing countries**, the case for exemptions remains strong. Imports of CBAM-regulated goods from least-developed countries and lower-income economies account for a negligible share of total imports—0.03% in the UK and 0.38% in the EU. Carving out exemptions for these groups would have little environmental impact but meaningful political benefit.

We also argue that the EU’s approach to carbon markets—particularly the relationship between the Emissions Trading Scheme (ETS)—is suboptimal. Under current rules, domestic firms face a rigid cap and a market-driven price, while importers can purchase any number of emissions permits at a fixed price (the average price of domestic ETS permits in the previous week). This can result in volatility and distorted incentives, most notably the possibility that energy-saving technical progress in the EU can result in increases in global emissions.

For the UK, agreeing to align its ETS with the EU’s has helped reduce concerns around Northern Ireland and Great Britain, creating a more integrated carbon market between the UK and EU. Further unification of energy and carbon markets would be beneficial for both parties.

In sum, the CBAM continues to move toward a more flexible, technically viable model. But as the mechanism matures, the technical details of the design and the possible tensions between environmental goals and political drivers remain serious challenges.

2. Implementation hurdles remain despite useful simplifications— *Juhi Sud*

The CBAM Omnibus proposal introduces two broad sets of changes: simplifications for sectors like steel and fertilisers, and adjustments to fiscal and administrative obligations for large importers and operators. From a practical standpoint, these changes are broadly positive, especially for clients working within the system,—but the CBAM remains highly complex and unfamiliar terrain.

For large exporters in third countries—many of which use EU-based affiliates to facilitate imports—the impact is mixed. Most will require further clarification before understanding the full effect on their operations. It is too early to say how far administrative and fiscal burdens will truly be reduced. There is cautious optimism, but unpredictability has not been resolved as we’d like.

The **transitional registry** continues to pose challenges. Variables are frequently updated, and system glitches persist. Both importers and member states are still climbing the learning curve. Some changes in the Omnibus—such as allowing consultants to file declarations and removing verification for default values—make sense and should help. (But if third parties need to get access to the CBAM registry with a EORI (Economic Operators Registration and Identification) number, this could become a complicated affair and add costs.)

Extensions to deadlines are also welcome, though a longer extension would have been better; there will be difficulties in calculating, verifying and uploading data (this was a teething problem in the original

transitional phase). The easing of the “80% rule” to a “50% rule”¹, and the end of certificate repurchasing² are also steps in the right direction. Still, **financial burdens remain high**. Firms will need significant resources to manage certificate purchases and data reporting. And the default value system has become **more** punitive – rather than just taking default values (when data is not available) as the average of the EU, now, the default values will be the average of the 10 highest emitting countries. This could penalise emerging markets like India, where carbon credit trading and carbon market systems are still developing. The request for consultations by Russia has created some hopes of re-thinking.

For the UK, there’s no straightforward answer in response — all parties are now learning by doing. As the UK has experienced post-Brexit, constant change is part of the process.

3. The Clash of two International Regimes – Nicolas Lockhart

The EU’s Carbon Border Adjustment Mechanism (CBAM) has now been challenged by a formal consultation request from Russia at the World Trade Organization (WTO). At the same time, the EU is adjusting CBAM’s internal architecture.

A notable change is the revised **exemption threshold for small importers**. Under the original framework, around 200,000 firms were expected to fall under CBAM. Now, roughly 180,000 of them will no longer be subject to the mechanism. This shift results from redefining how thresholds are calculated—moving from a transaction-based value test to a more binary, annualised system. This revision also addresses a practical problem: importers often handle multiple CBAM products from multiple jurisdictions, making it difficult to calculate cumulative emissions and compliance costs under the previous model.

The new approach simplifies that calculation, though it still applies only to importers. There is still no exclusion for third-country exporters, including those in least developed countries (LDCs). This is a key point of contention. While the EU has stated that exemptions from the 50 tonne threshold account for just 0.73% of covered emissions under CBAM, as described above, **exempting LDC exporters would have less impact** on the climate goals than the recent exemption for small EU-based importers.

Russia’s case strikes at the heart of CBAM’s legal and political controversy. The central issue: **the EU is imposing a carbon price on production processes that occur in third countries**, rather than on the product itself. These so-called **non-product-related process and production methods (NPRPPMs)** are widely seen as contentious within both the WTO and the broader GATT system.

This raises difficult legal questions. The WTO has traditionally taken a narrow view of what constitutes a justifiable trade measure under the GATT. Yet CBAM is rooted in climate logic, not product regulation. The EU justifies the mechanism through the Paris Agreement, arguing that without such a border measure, carbon leakage would undermine its domestic climate goals.

But here lies the contradiction: the Paris Agreement rests on **nationally determined contributions (NDCs)**, and the idea that each country has responsibility for production processes within that country, and **common but differentiated responsibilities (CBDR)**. This recognises that not all countries should be

¹ The current “80% rule” requires importers (declarants) to purchase and hold CBAM certificates equivalent to 80% of the embedded emissions in imported goods, calculated from the beginning of the calendar year. This stock must be available in their account at the close of each quarter. The new proposal lowers the threshold to 50%, reducing short-term compliance pressure on importers while maintaining overall annual obligations

² Stopping the practice that currently allows importers to sell back (or “repurchase”) CBAM certificates to the EU registry.

expected to share the EU's level of ambition. CBAM, however, assumes that such different levels of ambition undermine the EU's ability to achieve its climate agenda.

The WTO had remained quiet on the EU's CBAM. This will now raise cases for WTO dispute settlement that would have been better addressed informally, through committees, councils, and structured discussions. Russia is not part of the **MPIA (Multi-Party Interim Appeal Arbitration Arrangement)**, the EU's alternative appellate mechanism, so if this case is appealed, it could land in the WTO's current appellate vacuum—meaning when (or whether) the dispute will be conclusively resolved is uncertain. We don't yet have a clear idea of how Russia intends to argue the dispute.

However, the WTO panel may now be forced to weigh in on foundational questions:

- Are NPRPPMs violations under the GATT, or will long-standing case law be overturned to allow the CBAM NPRPPMs as legitimate grounds for trade restrictions?
- How should WTO members reconcile the principles of two international regimes: CBDR with principles of non-discrimination? Should panels defer to climate agreements when interpreting trade rules?

CBAM has long been controversial in theory. Now, the WTO may finally have to rule on it in practice.

4. Discussion

1. ***Would exempting LDCs conflict with CBAM's legal or policy aims?***

The general view was that this would not necessarily be the case. While CBAM's primary objective is environmental, there is a recognised legal basis under GATT Article XX to accommodate differential treatment for countries with lower capacities — consistent with the principle of CBDR. CBDR is inherently discriminatory, but in a way that can be justified under WTO rules when serving legitimate policy objectives. This approach is arguably more coherent than exempting EU importers simply because compliance is burdensome.

2. ***Is there a risk of trade diversion if LDCs are exempted?***

Participants considered that there was a risk but that it was a manageable one. A regime that treats countries differently could incentivise firms to route products through exempt jurisdictions. However, customs authorities already handle rules of origin (ROO), and any sudden surge in imports from LDCs could be flagged as circumvention. The trade system has tools to address this, and given how small LDC import volumes currently are, the risk is limited.

3. ***Could Russia's WTO claim affect the CBAM Omnibus proposal?***

Most considered that it would not have a significant impact as Russia could update its claims as the Omnibus is adopted, and could return to consultations if needed. But the case is unlikely to derail the proposal. So far, Russia has not clearly specified which aspects of CBAM it is challenging. The EU is expected to continue implementation unless and until a ruling requires a change — the process remains legally open-ended and politically fluid. Russia is not part of the MPIA, so any appeal might lead into legal limbo. The case touches on longstanding disputes over NPRPPMs— where WTO precedent is mixed. CBAM attempts to regulate emissions tied to production in third countries, which brings climate policy into direct tension with trade law. The key legal question is whether the WTO will interpret CBAM as compatible with the Paris Agreement's recognition of nationally determined contributions (NDCs), or as overreach by the EU.

4. ***What should the UK do as it designs its own CBAM?***

On this topic some participants shared the view that alignment would be sensible — with both the EU CBAM and the EU Emissions Trading System (ETS). The biggest gains lie in ETS integration, but even partial alignment would reduce confusion and compliance costs for third-country exporters. Maintaining a separate UK CBAM introduces unnecessary complexity, especially for small exporters.

The UK government's desire to differentiate post-Brexit policy has come at the cost of optimal design. CBAM's direct emissions impact may be limited, yet it's consuming substantial political and regulatory effort. Policymakers should consider whether this is the most efficient use of climate resources, and how CBAM fits within the broader global regime. Right now, it's sucking up a lot of air in the climate policy space.

5. ***How can the WTO respond to the growing use of CBAM-like measures?***

Participants discussed the importance for WTO members to acknowledge that climate-trade measures sit at the intersection of two legal regimes: international trade and international climate law. Each has different rules, principles, and institutional cultures. Integrating them constructively will require clearer guidance on how carbon measures relate to trade obligations — particularly regarding CBDR, national commitments under Paris, and WTO non-discrimination. Advisory opinions from legal bodies could play a useful role, as would greater coherence between trade and climate institutions.

6. ***Are Russia's vague consultation terms a problem for the WTO process?***

The view that arose from discussion was that WTO consultation requests rarely required exhaustive legal arguments, so vagueness was not a decisive factor in this instance. However, Russia hasn't clearly pinpointed which CBAM provisions it believes violate WTO law. Other members may be reluctant to see such a broad and legally complex issue litigated in a case with such weak framing. But it's also possible that this challenge prompts more members to bring targeted, better-structured disputes of their own.

Additional Recommended Resources:

CITP Blog 2024. *The UK CBAM journey: Assessing the Government's response to its consultation of March 2024*. 13 December 2024. <https://citp.ac.uk/publications/the-uk-cbam-journey#>

CITP Blog 2025. *The CBAM evolves: the EU's Omnibus Regulation and anti-shuffling measures*. April 2025. <https://citp.ac.uk/publications/the-cbam-evolves-the-eus-omnibus-regulation-and-anti-shuffling-measures>

ISO 2022. Net Zero Guidelines. <https://www.iso.org/netzero>.

Lydgate & Zhao 2025. *Organizational standards, Trade and the Net Zero Transition*. CITP. UKTPO. An independent report prepared for BSI (the British Standards Institution). February 2025 <https://citp.ac.uk/asset/Organizational-standards-trade-and-the-net-zero-transition.pdf>

Sasmal et al 2023. *Exempting Least Developed Countries from carbon border adjustments: A legal and economic analysis*. A legal and economic analysis, CITP Briefing Paper 5. 6 October 2023. <https://citp.ac.uk/publications/exempting-least-developed-countries-from-carbon-border-adjustments-a-legal-and-economic-analysis>

Sidley Update 2025. *EU Omnibus Package: Key Changes Proposed by the Commission on the Carbon Border Adjustment Mechanism*. 26 March 2025. <https://www.sidley.com/en/insights/newsupdates/2025/03/eu-omnibus-package-key-changes-proposed-by-the-commission-on-the-carbon-border-adjustment-mechanism>

Tamberi & Winters 2024. *How to price CBAM permits: Combining the markets for ETS and CBAM carbon permits*. Centre for Inclusive Trade Policy Working Paper 015. <https://citp.ac.uk/publications/how-to-price-cbam-permits-combining-the-markets-for-ets-and-cbam-carbon-permits>

TaPP Insights 2023. Net Zero and UK Trade. 12 April 2023 <https://tappnetwork.org/resources/tapp-insights-net-zero-and-uk-trade/>