

## Concerns about EU-CBAM

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Subcommittee on Global Environment, Committee on Environment

A free and open international economic order based on rules will benefit the economies of all countries. Based on this recognition, Japan, as a flag-bearer of free trade, has been contributing to the maintenance and strengthening of the multilateral free trade regime centered on the WTO.

With regard to climate change issues, Japan aims to achieve carbon neutrality not only in its own country but also on a global scale. For more than 25 years, Keidanren has been strongly promoting the reduction of CO2 emissions based on the “Keidanren Carbon Neutrality Action Plan”, which has been positioned as a pillar of the Japanese government’s policy. In addition, in order to further strengthen Japan’s climate change policy, Keidanren made policy proposals for Green Transformation (GX) in 2022 and continues to strongly promote climate change countermeasures that are compatible with growth and competitiveness.

Against this backdrop, the EU began a transitional phase with reporting requirements in October 2023, with the aim of introducing the definitive regime of the Carbon Border Adjustment Mechanism (CBAM) in January 2026. While agreeing that a measure may be necessary to address the risk of carbon leakage when implementing climate change countermeasures, the Japanese business community is concerned that such a measure may function as a non-tariff barrier and adversely affect the free and open international economic order based on rules, as it is considered inconsistent with the WTO rules based on the principle of non-discrimination against foreign products. While the simplification of CBAM proposed in February 2025 can be evaluated as contributing to easing certain procedural burdens, it has yet to resolve these concerns. If the issues remain unresolved, the impact will be even greater if the sectors in the scope are expanded, and if similar CBAMs are introduced in other countries and regions outside the EU.

**We hope that the EU will listen to the opinions of Japan and other interested countries and business communities through various forums for consultations, and work sincerely to deepen discussions and foster a common understanding on points that have not yet been reached among countries, including the concept of a carbon price, the method of calculating embedded emissions, and the fairness of measures to address carbon leakage. We also request that the EU will not unilaterally initiate monetary charges by CBAM until a concrete agreement is reached with each country on how to ensure equality in the competitive conditions consistent with WTO rules.** The Japanese business community believes that at least the following points need to be improved and addressed when considering the introduction of the measure in the future.

1. **Accountability** | If the EU insists on WTO rule compatibility, explanations are necessary that the measures will not be more trade restrictive than necessary and that emission reductions will be commensurate with the cost and effort. In particular, the EU is expected to explain whether the global emission reductions that would be achieved by imposing significant procedural and monetary burdens on imported products would be worthwhile. Excessive burdens that are not cost-effective may discourage efforts by companies outside the EU to develop technologies and improve processes to achieve global emission reductions.

## 2. Exemption from CBAM application

- (1) The design of the EU-CBAM, which evaluates emission reduction measures of other countries against the criteria of the EU-ETS, may be incompatible with WTO rules<sup>1</sup>. Taking into account the principle of the Paris Agreement, which assumes various pathways, countries that have taken emission reduction measures based on the Agreement should be exempted from the application.
- (2) **Threshold** | Even if the exemption is not made on a national basis, the CBAM de minimis threshold of 50 tons mass per year per importer<sup>2</sup> should be significantly relaxed as it is too strict in light of the fact that the EU-ETS excludes operators with emissions of less than 25,000 tons per year from its scope.

## 3. Equality in relation to embedded emissions

- (1) WTO rules are based on the principle of non-discrimination between domestic and foreign products, which requires effective equality of competitive conditions in the market for trade in goods. However, the current mechanism of EU-CBAM requires only businesses dealing with imported products to report “product-based” emissions (embedded emissions)<sup>3</sup>. The significant procedural and monetary burdens that are not present for EU products severely inhibit incentives to prefer imported products, putting imported products at a clear competitive disadvantage within the EU. The burden would be even greater if calculations were required for each tariff code subdivision. Measures that require imported products to comply with content not required for EU products should be removed or corrected.
- (2) **Default values** | In order to simplify the calculation of embedded emissions, the EU is planning to determine country-specific reference values (default values) for emissions per unit of product, which requires an explanation regarding the reliability and accuracy of the calculation basis. The measure to increase the default value at a certain level for each country (mark-ups) is also punitive, and there is a concern that the level of the default value and operation will be arbitrary. It should be made possible for third countries to set default values in a reliable manner.
- (3) **Calculation and Verification** | Existing internationally recognized calculation methods, such as ISO, should be made available for the calculation of embedded emissions. In addition, the fact that emissions verifiers are required to use EU accreditation bodies for certification is an excessive burden for verifiers and operators outside the EU. The system should make it possible to use accreditation bodies outside the region whose reliability can be confirmed.

## 4. Fairness in the assessment of the paid carbon prices

- (1) Under the EU-CBAM, carbon prices already paid in third countries will be deductible from the charged amount, but the current system only allows deductions of carbon prices that are clearly related to carbon emissions (explicit carbon pricing) and does not take into account energy taxes, regulations, etc. (implicit carbon pricing). Under such a system

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<sup>1</sup> WTO rules require that trade measures not be applied in a manner which would constitute (i) a means of arbitrary or unjustifiable discrimination, or (ii) a disguised restriction on international trade.

<sup>2</sup> This is supposed to cover 99% of emissions in the CBAM scope, while exempting 90% of the importers.

<sup>3</sup> The EU-ETS requires operators in the EU to report emissions “by operators or installations”, but does not require reporting of “product-based” embedded emissions.

design, the various emission reduction measures and efforts undertaken by each country would not be properly evaluated. From the perspective of ensuring non-discrimination against foreign products, the system should be designed to fairly assess the policy intensity of each country's contribution to carbon emission reduction and to ensure substantial equality in the burden<sup>4</sup>. If the policy intensity of a third country can be assessed as equal to or greater than that of the EU, it would only be right to provide refunds, exemptions, etc.

- (2) **Past free allowances** | From the perspective of clarifying in an objective manner that equality of burden is ensured, it should be verified and disclosed how the effects of free allowances have been allocated to products manufactured in facilities that received free allowances under the EU-ETS.

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<sup>4</sup> It is also necessary to consider the fact that the EU continues to implement measures that have the opposite effect of carbon pricing, such as subsidies and exemptions from taxes and public dues for industries in the EU, to mitigate the increase in electricity prices due to the EU-ETS.