

Carbon Border Adjustment Mechanisms (CBAM): Early lessons for global supply chains



Carbon Border Adjustment Mechanisms (CBAM) are emerging as a key policy tool to address **carbon leakage** by applying a carbon price to selected imports based on their embedded emissions. The European Union's CBAM is the most advanced model and is already influencing supply-chain decisions worldwide.

What's changing

CBAM applies initially to sectors such as iron and steel, aluminum, fertilizers, cement, hydrogen and electricity. A phased approach begins with reporting obligations before the introduction of financial liabilities. Over time, sector coverage and emissions scope may expand.

Key early observations

- Data transparency is critical. Importers must collect detailed product-level emissions data, and many suppliers — particularly SMEs — are still developing systems to meet these expectations.
- Cost-allocation models are evolving. Organizations continue to assess how CBAM costs are shared between exporters, importers and customers, leading to renegotiation of contracts.
- Carbon performance creates competitive advantage. Suppliers with lower-emissions production and stronger reporting controls are increasingly preferred.
- Compliance expectations resemble financial reporting. Authorities expect documented methodologies, audit trails and governance oversight.

Why this matters

CBAM embeds carbon costs into cross-border trade. Companies trading with the EU face higher compliance requirements, emissions-linked pricing exposure, and potential supply-chain restructuring, with similar mechanisms likely to emerge in other regions.

What companies are doing

- Mapping product- and supplier-level emissions
- Engaging suppliers to improve data quality
- Embedding carbon clauses in contracts
- Reviewing sourcing strategies and internal controls

Looking ahead

CBAM is likely to accelerate the integration of carbon pricing into global trade. Companies that invest early in emissions transparency and lower-carbon operations may be better positioned as similar mechanisms evolve across markets.

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