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# IENE Comment

## Carbon Tax about To Disrupt Essential European Imports



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*By Irina Slav\**

The Carbon Border Adjustment Mechanism entered into effect on January 1st. The mechanism, commonly referred to as a carbon border tax, is supposed to help boost the competitiveness of European heavy industries against non-EU producers in countries with laxer emission regulations. Unfortunately, it may backfire badly.

The European Union devised the carbon border tax in response to pleas from heavy industry to do something about their sky-high energy costs that were driven there by EU emission reduction efforts. These efforts focused on placing a hefty price on the carbon dioxide that industries such as cement and steelmaking generate in significant volumes because of the amount of energy from combustion necessary for the production of these commodities.

Emissions fell, but competitiveness suffered because the emission-related costs of cement- and steelmakers inflated their production costs and, as a result, the end price of their products. Meanwhile, imports of steel and cement from India and China remained much cheaper because of these two countries' different list of priorities where emissions are not at number one. Naturally, European producers were not happy and Brussels tried to fix things.

The first reactions from China and India are in, and they are exactly the sort of reactions one should have expected. China issued an official statement calling the CBAM discriminatory and unfair, and threatening retaliation. "We will resolutely take all necessary measures to respond to any unfair trade restrictions," the country's Ministry of Commerce said.

Indian steelmakers, meanwhile, signalled they would be reducing shipments to Europe—which takes in 66% of India's steel output. The reasons cited for these plans include lack of clarity on the specificities of the carbon border tax and the rather reasonable suspicion that it would hurt profits. Egypt has become the first country to ask for an exemption from the CBAM altogether.

The CBAM is based on what Brussels has called a default emission value based on the

total emissions of the respective industry in the respective country. If a producer does not want to use that default value, they must measure their own emissions in a “reliable, verifiable” way, according to the CEO of The ESG Institute, an emissions accreditation outlet. This means additional costs – but so does using the default emission value benchmarks that the EU has prepared for importers.

As if these problems are not enough, there appears to be doubt that some EU suppliers will get preferential treatment. Politico reported on the news in December, citing unnamed European industry executives as complaining that some of the default emission values were set suspiciously low. In some cases, the value was set so low – for some Chinese steelmakers – that their steel turned out to be even greener than European steelmakers’, which is apparently inconceivable for some in Europe. It is, however, conceivable in the context of China being by far the world’s largest generator of wind and solar energy, which are by default green.

So, it seems that the CBAM has left everyone unhappy, except its architects, who hope it would serve to motivate non-European countries to adopt European emission-trading habits. It’s worth noting here that China has a functional carbon market and has had it since 2021. India, on the other hand, has bigger problems to deal with before it gets to carbon trading – which it will nevertheless do soon enough, with its Carbon Credit Trading Scheme about to launch in the second half of 2026.

So, it appears that carbon trading is not a concept alien to two of Europe’s biggest suppliers of heavy industry goods. But it will, along with the CBAM, make their imports into the EU costlier. And that will make things costlier for everyone down the supply chain, aggravating an already rather severe cost-of-living problem for European economies. It is quite likely that the worst hit will come from the carbon border tax on fertiliser imports, which would affect the price of food for Europeans while they continue struggling with ever higher energy costs.

After the energy transition efforts of European Union political leaders began stalling in 2025 amid the manifestation of unintended consequences such as negative electricity prices, grid reliability compromising, and cost-of-living inflation, 2026 may be a good year to rethink the “At all costs” approach to emission reduction before we reach a point of no return in deindustrialisation.

***\* Irina Slav is an Energy Journalist and Contributing Editor, IENE Newsletters***

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3, Alex. Soutsou Str. 106 71 Athens, Greece, T: +30-210 3628457, 3640278, F: +30 210 3646144,  
[marketing@iene.gr](mailto:marketing@iene.gr), [www.iene.eu](http://www.iene.eu)

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