South African Exporters: Take note!

The EU's Carbon Border Adjustment Mechanism has shifted from paperwork to payment in 2026 and South African exporters of steel, aluminium, cement and iron are squarely exposed. CBAM certificates became payable from 1 January 2026, and steel, aluminium, cement and iron exporters to the EU face rising costs as certificate coverage climbs from 2.5% of embedded emissions in 2026 to 100% by 2034. South Africa's rising domestic carbon tax is the main lever to offset the EU charge but only if emissions data is verified and reported.

What exactly is CBAM?

The EU's Carbon Border Adjustment Mechanism, or CBAM, is best understood as a carbon tax charged at the EU's border. It was formally established by Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023. The EU already prices carbon for its own industry through the EU Emissions Trading System, established under Directive 2003/87/EC [1], and CBAM ensures that goods imported into the EU carry a comparable carbon cost, so foreign producers cannot undercut EU manufacturers simply by emitting more. [2]

CBAM is not a treaty that countries sign up to. It is EU law that applies automatically and unilaterally to anyone exporting covered goods into the EU market – there is no opt-in, and no country's consent is required. [3] South Africa, alongside China, India and Brazil, has publicly criticised the mechanism as an unfair burden on developing economies and argued that it breaches World Trade Organization rules. [4] That political contest does not, however, pause the compliance clock facing exporters. [5]

How the mechanism works

CBAM currently applies to iron and steel, aluminium, cement, fertiliser, hydrogen and electricity. The EU importer of the goods must report the embedded carbon emissions in what it brings in and, from 2026, must purchase and surrender CBAM certificates to cover those emissions. [6] The obligation is phased in gradually – certificates need only cover 2.5% of embedded emissions in 2026, rising step by step to 100% by 2034. [7] Where the exporting country has already charged the producer a carbon price, that amount is deducted, so only the difference between what has already been paid and the EU-equivalent price falls due. [8]

The EU has also proposed extending CBAM to around 180 further product categories manufactured from steel or aluminium – including machinery, vehicle parts, white goods and construction and electrical equipment. [9] That would pull many South African manufacturers of

finished and semi-finished goods into scope, not only producers of raw metal.

The compliance timeline to diarise

CBAM's transitional phase ran from October 2023 to the end of 2025 under Commission Implementing Regulation (EU) 2023/1773 [10], during which importers only had to report emissions, with no payments due. [11] The definitive phase began on 1 January 2026 under Regulation (EU) 2023/956 – importers must now buy and surrender certificates, and the EU has replaced its earlier, more generous default emissions values with country-specific defaults that include an added mark-up. [12] This matters a great deal for South African exporters – the transitional phase's flat default values happened to sit below actual South African carbon intensity, giving local exporters an inadvertent, temporary cushion that disappears with the 2026 shift. [13]

The next major milestone is 30 September 2027, the deadline for the first annual certificate surrender, backed by penalties of €100 per tonne of CO2 (indexed to inflation) for shortfalls [14]. From 2027, the European Commission will also begin publishing default carbon-price references for third-country carbon pricing regimes – the mechanism through which South Africa's own carbon tax could, in principle, be formally recognised to reduce the net CBAM bill its exporters face. [15] Beyond steel and aluminium, CBAM's scope may extend further still, with signals of coverage for plastics and chemicals by 2026, and potentially all EU ETS sectors by 2030. [16]

Why South Africa is particularly exposed

South Africa's economy carries a disproportionate share of CBAM risk. Its high electricity generation intensity makes it one of the most carbon-intensive exporters globally, and it has been flagged as likely to see declines in value-added specifically because of its reliance on high-emitting exports. [17] Iron, steel, aluminium and cement exports to the EU – sectors that matter enormously to South African trade and employment – face real added costs unless emissions intensity comes down to meet EU benchmarks. [18] Comparative analyses place South Africa among the economies facing the steepest relative cost increases as CBAM's definitive phase takes hold. [19]

What non-compliance actually costs

Direct legal liability under CBAM sits with the EU importer of record, not with the South African exporter. [20] EU importers who fail to report, or who report inaccurate data, face fines of €10 to €50 per tonne of CO2; failing to surrender certificates on time, or operating without authorised-declarant status, attracts a much steeper €100 per tonne penalty (indexed

to inflation); and importers who exceed authorised thresholds without approval can face penalties of three to five times that rate. [21]

South African exporters do not face these fines directly – but the practical effect lands on them regardless. If a South African supplier cannot or will not provide verified emissions data, its EU customer either pays the (often higher) default emissions value or looks elsewhere. Non-cooperative or high-emitting producers therefore risk losing EU market access indirectly, through their customers' cost calculations, without a single fine ever being issued against them. [22]

What a CBAM certificate actually costs

The certificate price tracks the EU's own carbon market, calculated as the weighted average of EU ETS auction prices. The first published price, for the first quarter of 2026, was €75.36 per tonne of CO2 equivalent. [23] In 2026, only 2.5% of embedded emissions need be covered by certificates, so the real-world bill is import volume, multiplied by embedded emissions, multiplied by that 2.5% factor, multiplied by the certificate price. Actual charges vary hugely by country and product: one Q1 2026 analysis put default-value CBAM costs on steel at roughly €100.55 per tonne for Turkey, €254.13 for India, €148.03 for Algeria and €94.14 for Vietnam [24] – underscoring how much cheaper it is to supply verified, plant-level emissions data rather than rely on generic country averages. [25]

The single biggest lever available to South Africa is the carbon-price deduction described above. South Africa's own carbon tax, levied under the Carbon Tax Act 15 of 2019, [26] rose from R236 to R308 per tonne with Phase Two from January 2026, and is legislated to climb to R462 per tonne by 2030 – a credible, rising domestic price is precisely what keeps revenue in South African hands rather than "leaking" to Brussels via certificate purchases. [27]

What exporters should be doing now

Government-to-government diplomacy over CBAM's fairness – through the WTO, the G20, the BASIC bloc and the African Continental Free Trade Area [28] – is a long game, and coalition-building of this kind will not resolve matters in time to help exporters through the 2026 definitive phase. [29] For individual businesses, four practical steps matter most –

1. Measure and report now. Commission a thorough CBAM impact assessment and build a compliance roadmap, including the systems needed to meet mandatory emissions reporting obligations. [30]

1.1. Steel and iron producers should commission mill-level emissions data (rather than relying on the EU's generic country default values) so EU customers can access the lower, verified emissions figure instead of the costlier default.

1.2. Aluminium smelters should document the electricity source and grid emission factor behind each tonne produced, since power-intensive smelting is the single largest driver of embedded carbon in this sector.

1.3. Cement producers should report the clinker-to-cement ratio and kiln fuel mix per shipment, as these are the two variables the EU's methodology weighs most heavily in calculating embedded emissions.

2. Cut embedded carbon. Reducing the greenhouse gas footprint of exported products, and aligning measurement with international standards, is the main lever available to reduce future certificate costs. [31]

2.1. Steel producers should, where feasible, shift a greater share of output to scrap-based electric arc furnace production, which carries a materially lower carbon footprint than primary blast-furnace steel.

2.2. Aluminium smelters should negotiate renewable or low-carbon power purchase agreements to displace grid electricity, directly reducing the emissions intensity that drives most of the CBAM charge on aluminium.

2.3. Cement producers should increase the use of supplementary cementitious materials, such as fly ash or slag, to lower the clinker ratio and adopt alternative fuels in the kiln.

2.4. Iron producers should invest in furnace efficiency upgrades and process-gas capture to reduce the emissions embedded in each tonne of iron exported.

3. Track South Africa's domestic carbon tax. A rising, credible local carbon price is what allows South African exporters to claim a deduction against the EU charge, rather than effectively paying twice over. Steel, aluminium, cement and iron producers should keep Carbon Tax Act payment records and allowance certificates audit-ready, so the carbon price already paid domestically can be evidenced and deducted from the EU certificate bill without dispute

4. Do not wait on diplomacy. The reporting and certificate deadlines apply regardless of whether South Africa's advocacy efforts succeed. Exporters across all four sectors should consider direct data-sharing arrangements with EU importers (with the relevant data privacy provisions), rather than waiting for the 30 September 2027 certificate-surrender deadline to force the conversation.

The bottom line

CBAM has moved from a reporting exercise to a real financial cost, and 2026 is the year that shift becomes concrete for anyone exporting steel,

aluminium, cement or iron products into the EU. South Africa's government is right to keep fighting for a fairer, more differentiated approach, but for individual exporters the more urgent task is decarbonising production and getting emissions-reporting infrastructure in place before rising certificate obligations start eating into margins or compel EU importers to consider less expensive exporters. Businesses that get ahead of verification and start reducing embedded carbon now will be far better placed than those waiting for the politics to be resolved.

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[1] Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the EU, on the EU Emissions Trading System.

[2] CBAM operates as a carbon cost applied at the EU border, mirroring the carbon price EU industry already pays under the EU Emissions Trading System. See Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism, recital 4 and Article 1 and Directive 2003/87/EC establishing the EU Emissions Trading System.

[3] CBAM is unilateral EU law binding on EU importers; it does not require agreement or ratification by exporting countries. See Regulation (EU) 2023/956, Article 1(1).

[4] South Africa, China, India and Brazil have criticised CBAM as placing an unfair burden on developing countries and as inconsistent with WTO rules. See Joint Statements of the BASIC Ministerial Meetings on Climate Change (2023 – 2024); South African National Treasury, Budget Review 2023, Chapter 4 (Carbon Tax and Climate Change).

[5] Compliance obligations for EU importers, and their knock-on effect on exporters, apply irrespective of the outcome of diplomatic or multilateral advocacy. See Regulation (EU) 2023/956, Articles 2, 5 and 22.

[6] CBAM currently covers iron and steel, aluminium, cement, fertiliser, hydrogen and electricity; EU importers must report embedded emissions and, from 2026, surrender matching certificates. See Regulation (EU) 2023/956, Annex I

[7] The CBAM certificate obligation is phased in from 2.5% of embedded emissions in 2026 to 100% by 2034, alongside the parallel phase-out of free EU ETS allowances. See Regulation (EU) 2023/956, Article 31; Commission Implementing Regulation (EU) 2025/2083 (CBAM Simplification Regulation).

[8] Where an exporting country has already charged the producer a carbon price, that amount is deducted from the CBAM certificate obligation otherwise due. See Regulation (EU) 2023/956, Article 9.

[9] The European Commission has proposed extending CBAM to approximately 180 downstream product categories reliant on steel or aluminium. See European Commission, Proposal for a Regulation amending Regulation (EU) 2023/956 as regards the simplification and scope extension of the carbon border adjustment mechanism, COM (2025) (December 2025).

[10] Commission Implementing Regulation (EU) 2023/1773 of 17 August 2023 laying down the rules for application of Regulation (EU) 2023/956 as regards reporting obligations for the purposes of the carbon border adjustment mechanism during the transitional period.

[11] CBAM's transitional phase ran from 1 October 2023 to 31 December 2025, and was limited to quarterly emissions reporting with no certificate purchase obligation. See Commission Implementing Regulation (EU) 2023/1773 of 17 August 2023 laying down the rules for the transitional period.

[12] The definitive phase began on 1 January 2026, introducing country-specific default emissions values with an added mark-up in place of the earlier flat defaults. See Regulation (EU) 2023/956, Article 7(1) and Annex IV.

[13] During the transitional phase, EU default emissions values were lower than actual South African production intensity, providing a temporary and inadvertent cost advantage that ends with the 2026 definitive phase. See Commission Implementing Regulation (EU) 2023/1773, Annex III (default values for the transitional period).

[14] The first annual certificate surrender is due by 30 September 2027, with penalties of €100 per tonne of CO2 (indexed) for shortfalls. See Regulation (EU) 2023/956, Articles 22 and 26; Commission Implementing Regulation (EU) 2025/2083, Article 20.

[15] From 2027, the European Commission will publish default carbon-price references for third-country carbon pricing regimes, for use in the certificate deduction calculation. See Regulation (EU) 2023/956, Article 9(2).

[16] Signals point to potential CBAM expansion to plastics and chemicals by 2026, and to all EU ETS sectors by 2030. See Regulation (EU) 2023/956, Article 30 (review clause); European Parliament

[17] South Africa's high electricity generation intensity is cited as a principal driver of its status as one of the most carbon-intensive exporting economies globally. See South African Department of Mineral Resources and Energy, Integrated Resource Plan; South African National Treasury, Budget Review 2023, Chapter 4.

[18] Iron, steel, aluminium and cement are identified as the South African export sectors most exposed to added CBAM-related costs. See South African National Treasury, Budget Review 2023 and 2025, Chapter 4 (Carbon Tax and Climate Change).

[19] Comparative cost analyses of CBAM's definitive phase place South Africa among the more significantly affected exporting economies. See South African National Treasury, Budget Review 2025, Chapter 4 (Carbon Tax and Climate Change).

[20] CBAM imposes direct legal obligations on the EU importer of record, not on the non-EU exporter or producer. See Regulation (EU) 2023/956, Article 3(15) (definition of "authorised CBAM declarant") and Article 4.

[21] EU importer penalties range from €10–€50 per tonne of CO2 for reporting failures, to €100 per tonne (indexed) for certificate shortfalls, rising to three-to-five times that rate for unauthorised imports above threshold. See Regulation (EU) 2023/956, Article 26; Commission Implementing Regulation (EU) 2023/1773, Article 16 (transitional reporting penalties).

[22] Non-EU producers unable to supply verified emissions data risk indirect loss of EU market access through their customers' increased costs, notwithstanding the absence of direct penalties on the producer itself. See Regulation (EU) 2023/956, Article 7 (application of default values absent verified actual emissions data).

[23] The Q1 2026 CBAM certificate price, calculated as the weighted average EU ETS auction price, was published at €75.36 per tonne of CO2 equivalent. See Regulation (EU) 2023/956, Article 21; European Commission, published CBAM certificate price notices.

[24] Comparative analysis of Q1 2026 default-value CBAM costs on steel by country of origin, derived from published EU default emissions values and the Q1 2026 CBAM certificate price.

[25] Comparative Q1 2026 analyses show default-value CBAM costs on steel varying significantly by exporting country, illustrating the cost benefit of verified plant-level emissions data over generic country defaults. See European Commission, CBAM default value publications for Q1 2026, issued pursuant to Regulation (EU) 2023/956, Article 7.

[26] Carbon Tax Act 15 of 2019 (South Africa), as amended, including the Phase Two rate increase effective 1 January 2026.

[27] South Africa's carbon tax rose to R308 per tonne from January 2026 (Phase Two) and is legislated to reach R462 per tonne by 2030. See Carbon Tax Act 15 of 2019, section 5, as amended; South African National Treasury, Budget Review 2025 and Draft Rate Amendment schedules.

[28] South Africa continues to engage on CBAM through the World Trade Organization, the G20, the BASIC bloc (Brazil, South Africa, India and China) and the African Continental Free Trade Area.

[29] South Africa has pursued coalition diplomacy on CBAM through the BASIC bloc, the G20 and the African Continental Free Trade Area Council of Ministers. See Joint Statements of the BASIC Ministerial Meetings on Climate Change (2023–2024); G20 communiqués under South Africa's 2025 Presidency; AfCFTA Council of Ministers decisions.

[30] Exporters are advised to undertake CBAM impact assessments and establish compliance roadmaps ahead of the definitive phase. See Regulation (EU) 2023/956, Articles 4 – 8 (reporting and declarant obligations).

[31] Reducing embedded carbon in production, aligned with international measurement standards, is identified as the principal lever for minimising future CBAM certificate costs. See Regulation (EU) 2023/956, recital 4 (objective of incentivising cleaner production methods); ISO 14064 series on greenhouse gas quantification and verification

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