Preliminary CAA Position on

CBAM Extension Proposal

CAA's view on overall impacts and safeguards

The CAA recognises the ambition of the Commission's proposal to extend the CBAM to downstream steel and aluminium products, to strengthen anti circumvention rules, whilst promote decarbonisation in third countries. However, proportional impact across all Member States must be ensured. As a small, highly open island economy with no basic material industry and a very high dependence on imported goods relative to GDP.

CAA has concerns on this proposed extension. At this juncture substantial safeguards and modifications need to be introduced to ensure proportionality, simplification, and robust EU level support for small administrative capacity of micro and SMEs in small island member states.

The EU impact assessment indicates that the downstream extension is expected to reduce carbon leakage and deliver a modest additional GHG reduction (around 0.7 Mt CO_2 eq/year by 2030) with negligible aggregate macro economic effects at EU level but non trivial sectoral impacts. For Malta, the direct environmental impact is marginal, given the absence of heavy industry, whereas the administrative and compliance impact is substantial given the very high reliance of the economy on the imported goods falling within scope of the CBAM extension.

CAA suggests the Maltese government to request assurances that the particular impact on small island member states has been taken into account in the impact assessment. An explicit proportionality test in the final act and/or recitals, recognising that, for small member states, the balance between environmental benefit and governance cost must be continuously assessed and, where necessary, recalibrated.

From an administrative point of view, CAA suggests the Maltese government to ensure a strengthened legal obligation on the Commission to monitor differentiated impacts across Member States, including small island and peripheral economies, and to report with a view to possible legislative or implementing adjustments if adverse competitiveness, relocation or disproportionate administrative effects become evident.

Finally, clearer commitments on support and guidance for importers, authorised declarants and third country operators in obtaining embedded emissions data for complex goods, including sector specific guidance, templates and standardised default pathways.

CAA carried out a preliminary correlation analysis between CBAM extension goods (COM(2025) 989) against EU ETS 1 Annex I covered activities (Directive 2003/87/EC), this analysis reveals extreme misalignment:

- Only 0.9% of extension goods (2 CN codes) are produced in manufacturing activities explicitly listed in EU ETS 1 Annex I
- 6.5% of extension goods (15 CN codes) are partially covered (some manufacturing steps match ETS; others don't)
- 92.6% of extension goods (213 CN codes) are produced in manufacturing activities NOT covered by EU ETS 1 Annex I

CAA is concerned of a circumventing environmental basis, since the industries that are being shielded through this proposal mostly are not subject to carbon leakage due to the ETS.

CAA firmly believes that the EU must remain a global example for third countries pursuing their green transition, demonstrating that ambitious climate policy can be implemented in a way that is fair, proportionate and supportive of economic development rather than stifling it. The proposal must avoid becoming a barrier to legitimate trade or inadvertently causing economic hardship economies that are making genuine decarbonisation efforts, particularly through overly complex compliance requirements or punitive default values that do not adequately recognise progress in third-country carbon pricing and clean technology deployment.

Specific concerns of the Maltese NCA

Experience during the CBAM transitional period has already demonstrated that Member States face significant structural challenges in establishing new IT systems, risk analysis capacity and coordination procedures between customs and NCAs, with resource constraints particularly acute in small administrations such as Malta. Extending CBAM to a broad range of downstream CN codes and introducing precursors (including pre consumer scrap) and composition-based emission calculation will sharply increase the complexity and volume of checks that a small NCA must perform, without commensurate national industrial benefits.

In the current CBAM scope, the NCA is consciously not charging any additional fees to the Maltese operators, acknowledging the current substantial administrative cost on the SMEs and micro-operators. CAA suggests that additional support is provided by the Commission for:

- EU tools, templates and analytics, including a common, Commission managed registry of precursors, emission factors and third country installations, to avoid inefficient duplication of complex systems in every Member State.
- Targeted financial and technical assistance for small NCAs, enabling them not only to launch but to maintain the required obligations like their counter-parts in other EU larger member states
- Until these conditions are firmly embedded in the legal and budgetary framework, the CAA cannot consider the proposal operationally viable for Malta.

Impact on Malta's importers and SMEs

Malta's economy is dominated by micro enterprises and SMEs that import relatively small volumes of machinery, components and fabricated metal products, many of which fall into the proposed downstream CBAM scope. For Maltese operators, adhering to strict application of the provision of the mechanism is disproportionately burdensome and largely unrealistic in terms of bargaining power and technical capacity, structurally increasing costs and eroding competitiveness vis à vis larger EU operators and non-EU competitors. Given Malta's geographic position on major East–West shipping routes and its role as a transhipment oriented hub with no land connections to EU markets, SME importers have limited practical scope to re route supply chains from non EU to EU producers.

Based on a preliminary assessment, this proposal is expected to exacerbate structural disadvantages for Malta's SME dominated import base unless robust simplification and support measures are built in from the outset.

Position on scrap and precursors

The CAA understands the inclusion of pre consumer ferrous and aluminium scrap as "input materials precursors" closes a loophole whereby emissions embedded in scrap could be ignored in downstream products, thereby undermining CBAM's environmental integrity. The CAA also firmly endorses the exclusion of post consumer scrap, in order not to penalise recycling and circular economy value chains on which Malta depends to meet its own environmental and resource efficiency objectives.

The CAA acknowledges the CBAM extension's environmental objectives and the logic of its core design choices on scrap, anti-circumvention and electricity but, given Malta's status as a small, highly import dependent Member State with limited administrative capacity and no heavy industry base, emphasises that implementation in its current form is not acceptable.

Legal certainty and "granular CN definitions"

The CAA recognises the need for more granular CN definitions and composition criteria to tackle misclassification and misdeclaration of emissions, particularly where the same CN code hides very different emission profiles. However, frequent and highly detailed adjustments to product definitions and parameters are particularly challenging for small customs services and traders to monitor, interpret and implement correctly.

Without harmonised, centralised guidance and easily accessible tools, granular CN refinements risk undermining legal certainty, generating uneven application and increasing dispute potential in small jurisdictions that lack in house tariff and emissions modelling expertise. The CAA will therefore scrutinise closely any extension of the Commission's powers in this area and insists that implementation be heavily centralised and standardised at EU level.

The Authority will reserve its scrutiny and will only move towards support if the final legislation incorporates stronger safeguards on proportionality, simplification for micro and small enterprises, centralised tools and data, and systematic monitoring and correction of differentiated Member State impacts. The CAA remains ready to engage constructively with the Commission and other Member States to secure these essential adjustments.

Climate Action Authority (CAA) Position on the proposal of a temporary Decarbonisation fund to shield energy intensive industries at risk of carbon leakage

General Background - Proposal

The EU ETS is expected to undergo operational adjustments between 2026 and 2034 through the phasing out of free allocations to operators making them exposed to unfair competition from third country imports while exacerbating the risk of carbon leakage. If this is to happen, the EU would be threatened by a reduction in the environmental effectiveness of its climate policy which would in turn signify higher emission increases to be allowed from manufacturing practices outside of the EU.

The decarbonisation fund will be assisting EU wide industries that are still at risk of carbon leakage to receive targeted financial support to overcome and lower the risk that still prevails. Through this fund the European Union will be injecting support to businesses that are home in the EU to bolster their production practices in line with the climate neutrality goal, which would in turn mitigate exposure to carbon leakage for these same companies while maintaining a high level of integrity of the EU ETS by re-emphasising the benefits of carbon pricing as a worthy tool to deliver real emission reductions. The Fund will only allow for the release of financial assistance if it deems that the investments put forward by operators are routed towards decarbonisation.

In terms of the dynamics of the Fund proposed, this financial instrument is being proposed to run across the period when the free allowances are still in place, hence, such distribution of financial support will be in place until 2034. It is envisaged that this fund will be financed through the re-allocation of Member State CBAM certificate issued revenue collected on domestic imports and will be a fixed rate set at 25% of total authorised revenue under Article 20 of the CBAM regulation. The Fund will prohibit proposals for financial deployment which do not tally with the scope of the Fund and which will not accrue any positive advantages for the industry to counteract carbon leakage. To this effect, the Commission will be responsible to release a list of goods that are entitled to receive this support though this is not exhaustive as Member States are allowed further discretion by requesting the production of further goods to be eligible under this support. As a means to uphold good governance, the regulation has a systematic review foreseen for 2030 whereby the Commission would have to present a report to the European Parliament and the Council showcasing the transfers of expenditure and the final beneficiaries on a Member State level.

CAA Preliminary Position

CAA is hesitant to agree with the notion that funds collected by Maltese businesses and consumers are re-directed towards a fund which doesn't have any final benefit for the local economy, whether through the cushioning of future heightened costs or else through the provision of funds to cater for other climate related goals and targets. Malta would like to remind the Commission that the beneficiaries proposed to be eligible are already benefitting from the automatic distribution of free allowances to limit carbon leakage and therefore the time passage for these companies to align themselves with modern day technologies to scale up on efficiencies and lower significantly their operational impacts on climate together with a second layer of a CBAM price adjustment should have drastically minimised the risk of competition fall out if they responded effectively to the Commission's climate signals. These same beneficiaries are also eligible to existing funding such as the Innovation Fund and the Modernisation Fund. If the Decarbonisation Fund were to be created from the revenues of CBAM then it should target those impacted by the CBAM mechanism in a proportionate manner. CAA also has concerns with the possible forfeiting of the proposed financial threshold of 25% of CBAM revenues collected by national budgets through their collection procedures. This provision is simar to other provisions such as customs duties. CAA calls for assurances that part of the CBAM revenues continues to go towards national budgets to cover administrative costs.