sandbag
smarter climate policy

CBAM and Fertiliser Inflation in 2026: The facts behind the numbers

Estimates suggesting that the EU's Carbon Border Adjustment Mechanism (CBAM) could increase fertiliser prices by up to 30% have brought a central question into focus: how significant is the inflationary impact likely to be? These projections of inflation have prompted member states to invoke a potential application to fertilisers of the proposed Article 27a, which would allow the European Commission to temporarily suspend CBAM obligations for specific goods "in the event of serious and unforeseen circumstances" causing significant market distortions[1].

In a recent analysis published on 7 January[2], Sandbag estimated that the price increase due to the inclusion of fertilisers in the CBAM should be small because it will be driven by the increased EU ETS costs faced by EU producers. Yet other projections anticipated that the impact will be much larger, considering calculations of CBAM costs for some importers, based on default values for products' emission intensities published by the European Commission. These calculations are not incorrect, but they do not calculate the same thing: cost rather than price. Although the two are related, the impact on price depends on who bears which costs: importers or EU suppliers.

This note clarifies how this plays out for the case of one of the main nitrogenic fertilisers used in Europe: urea (CN code 310210). In the following, we assume an EU carbon price of €80 per tonne of CO_2-equivalent in 2026.

CBAM costs for importers

For importers, CBAM compliance costs can be approximated using the following expression:

CBAM Cost ≈ (Embedded emissions – SEFA) × EU ETS price

Where SEFA stands for "specific embedded free allocation" and is 97.5% of the product's CBAM benchmark in 2026. CBAM benchmarks are given by Implementing Regulation

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2025/2620 and show for urea (Table 1) 0.902 t CO_2e if the CBAM charge is calculated using default values (column B) and 0.053 (column A) if using actual data.

Table 1 : CBAM benchmarks for urea and ammonia (source: Implementing Regulation 2025/2620)

| | | Actual | Default |
| | | ↓ | ↓ |
CN code	CN Description	Column A BMg* [tCO$_2$e/t]	Column B BMg [tCO$_2$e/t]
3102 10 19	Urea, whether or not in aqueous solution, containing > 45 % nitrogen in relation to the weight of the dry product (excl. that in tablets or similar forms, or in packages with a gross weight of ≤ 10 kg, or in aqueous solution containing ≥ 31,8 % but ≤ 55 % by weight of urea)	0,053	0,902
2814 10 00	Anhydrous ammonia	1,522	1,522

Default values are given by Implementing Regulation 2025/2621 for each country and each product.

Table 2 : CBAM default values for urea for Egypt (source: Implementing Regulation 2025/2621)

636/2400

| | | Egypt | | | | |
Product CN Code	Description	Default Value (direct emissions)	Default Value (indirect emissions)	Default Value (total emissions)	2026 Default Value (including mark-up)	2027 Default Value (including mark-up)
3102 10 19	Urea, whether or not in aqueous solution, containing >45% nitrogen in relation to the weight of the dry product (excl. that in tablets or similar forms, or in packages with a gross weight of <= 10 kg, or in aqueous solution containing =>31,8% but <=55% by weight of urea)	1,320	0,080	1,390	1,404	1,404

Egypt is a useful reference point, accounting for around one-third of EU nitrogen fertiliser imports[3]. For Egyptian urea, the default value it is 1.404 t CO_2 per tonne of urea.

For Egyptian urea, based on default values:

SEFA = 97.5% * CBAM benchmark (column B) for urea = 97.5% x 0.902

CBAM cost = (1.404 – 97.5% * 0.902)) x 80 = **41,96€** per tonne of urea

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[3] European Commission, DG Agriculture, EU Fertiliser Market analysis, 2024

The above is the cost for operators not providing actual data and therefore relying on conservative default values. These operators are likely to be outcompeted by those claiming CBAM fees based on actual data.

For Egyptian urea based on actual data

The calculation for SEFA is:

SEFA = 97.5% * (CBAM benchmark (column A) for urea

+ % of ammonia per t of urea[4] x CBAM benchmark (column A) for ammonia)

= 97.5% x (0.053 + 57% × 1.522).

The resulting cost based on actual emissions is therefore:

CBAM cost = (actual urea emissions − 97.5% x (0.053 + 57% × 1.522)) × €80

According to a CBAM analysis prepared for the European Bank for Reconstruction and Development (EBRD)[5], embedded emissions for urea produced in a typical integrated ammonia–urea plant in Egypt are estimated at approximately 1.1 tCO_2 per tonne of urea.

Thus, we can calculate CBAM cost as:

CBAM cost = (1.1 − 97.5% x (0.053 + 57% × 1.522)) × €80 = **€16.19** per tonne of urea for average plants.

To estimate the emission intensity of higher-efficiency installations, we assume emissions 10% below the average level[6].

CBAM cost = (0.99 − 97.5% x (0.053 + 57% × 1.522)) × €80 = **€7.39** per tonne of urea for more efficient plants.

Egypt is a useful reference point, accounting for around one-third of EU nitrogen fertiliser imports in 2025[7], and is assigned relatively high embedded-emissions factors under CBAM default values[8].

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[4] At stoichiometric proportions, 1 tonne of urea requires ~0.57 tonnes of ammonia (2 NH_3 + CO_2 → urea + H_2O; 34/60 ≈ 0.57).
[5] EBRD, CBAM Training, December 2023
[6] In the EU ETS, the 10% plants with lowest emission intensity were 15% below the weighted average in 2016-17
[7] EU Commission, DG for Agriculture and rural development, Fertiliser trade dashboard, 2026
[8] EU Commission, Implementing Regulation (EU) 2025/2621 as regards the establishment of default values, 16 December 2025

The most polluting importers, as well as those declaring emissions based on default values, are likely to be outcompeted by more efficient ones claiming CBAM fees based on actual data. This is why the relevant CBAM cost for the EU market is more likely to be the latter, i.e. €7.4 per tonne of urea.

CBAM-linked ETS costs for EU Producers

The other important players in the EU fertilisers market are EU producers. For them, the incremental carbon cost is the number of free allowances removed as a consequence of the CBAM. In 2026, it corresponds to 2.5% of the free allowances that would otherwise be given without the CBAM, i.e. 57% of the ammonia benchmark (1.57 EUA per tonne of ammonia) tCO_2 per tonne:

ETS cost = 1.57 × 57% × 2.5% × €80 ≈ **€1.79** per tonne of urea caused by the CBAM

Which cost drives the price?

CBAM costs alone do not determine market prices. In competitive markets, prices are set by the marginal supplier, which is the plant producing at the smallest positive profit margin, represented in Figure 1 as the plant aligned with the black vertical line. The cost of that plant sets the market price P0, shown by the horizontal black line. Once the CBAM comes in, EU plants bear a small extra cost of €1.79 per tonne of urea, which is likely to drive the price up (as per the purple line).

On the contrary, cheaper imports (from countries with cheap natural gas and labour) are unlikely to drive prices up, because the addition of CBAM costs, even if they are higher than EU ETS extra costs, will probably not make the total cost of imports exceed that of the marginal EU plant.

If EU producers, who already face EU ETS obligations and often operate with tighter margins, remain price-setting, fertiliser prices are more likely to be driven by domestic carbon costs than by CBAM-related costs on imports.
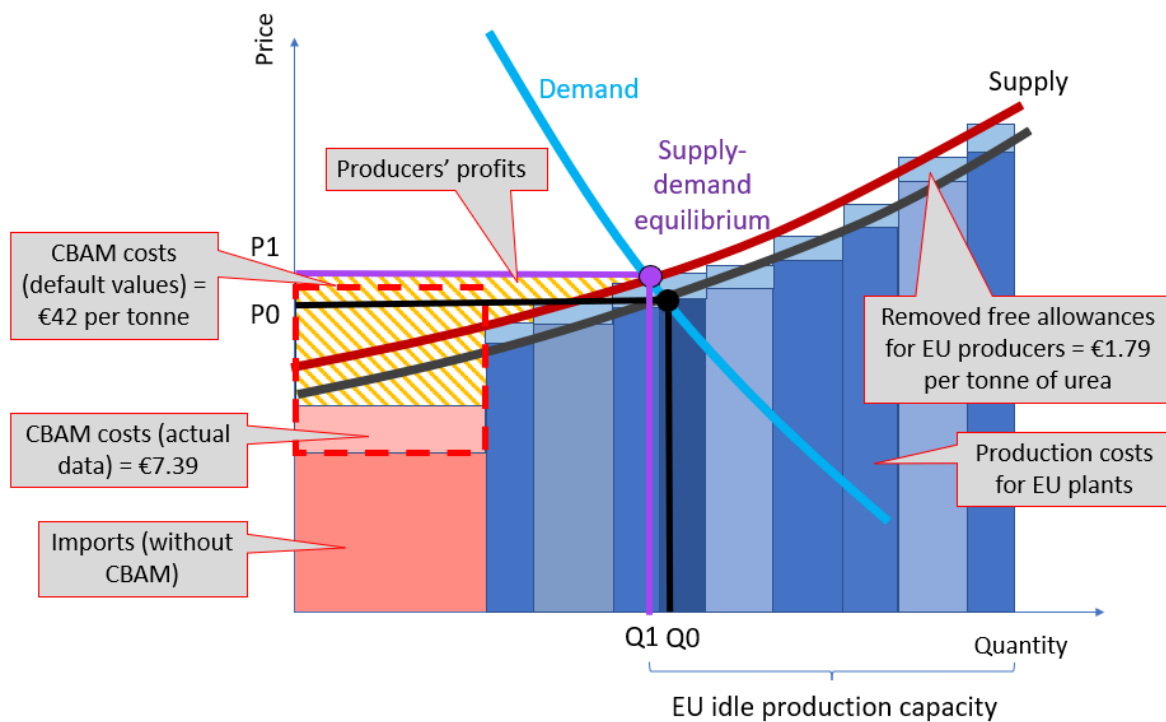
Figure 1: Price impact in the fertiliser market: the role of the marginal supplier

It is even possible that some fertilisers from other countries, with lower emissions than EU producers will bear lower CBAM costs than European ETS costs. Under this scenario, EU industry would pass through less than 100% of its incremental ETS costs to preserve competitiveness. **Based on an 80% cost pass-through rate, the price effect of the CBAM would be limited to €1.4 per tonne of urea.**