



# ***The EU Carbon Border Adjustment Mechanism***

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# ***Presenters***



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A photograph of a person walking away from the camera through a field of solar panels. The person is wearing a brown sweater, blue pants, and black boots. The solar panels are arranged in long, parallel rows that stretch into the distance. The sky is bright and clear.

**Overview of EU CBAM  
registration and reporting  
requirements**

13 March 2024



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## Agenda

1

Carbon leakage

2

CBAM overview

3

The transitional phase

4

The fully operational period

5

Reporting emissions

6

UK CBAM

7

Recap of key actions

8

Q&A





## Carbon Leakage

### Definition of carbon leakage

Carbon leakage refers to a situation where businesses **transfer emission-intensive activities** (i.e. the production of carbon-intensive goods) **from a country with stringent climate policies, to a country with laxer climate policies**. This is driven by businesses seeking to avoid constraints and costs of the production of certain goods, resulting in the transfer of emissions rather than a reduction in emissions.

### Sectors at risk of carbon leakage

- The EU retains a list of sectors and sub-sectors considered to be at **significant risk of carbon leakage** including:
  - Mining
  - Oil and gas
  - Paper
  - Pulp
  - Plastics
  - Metals
  - Cement
  - Glass
  - Chemicals

### Why the EU cares about carbon leakage


- The EU has a goal of **reducing EU emissions by at least 55%** by 2030.
- To achieve this, the **EU is introducing new legislation** to ensure EU policy is in line with its climate goals.
- As the EU introduces these policies, carbon leakage could result in **emission reductions in the EU being offset by increases in emissions elsewhere**.

### How does the EU currently address the issue?

- The EU currently applies an **Emission Trading System (ETS)** which includes sectors at risk of carbon leakage, amongst others.
- EU installations must purchase ETS certificates which entitle them to emit greenhouse gasses in production.
- Currently, the sectors at risk of carbon leakage receive a **greater amount of free allowances** than other sectors.

### The EU's new approach to carbon leakage

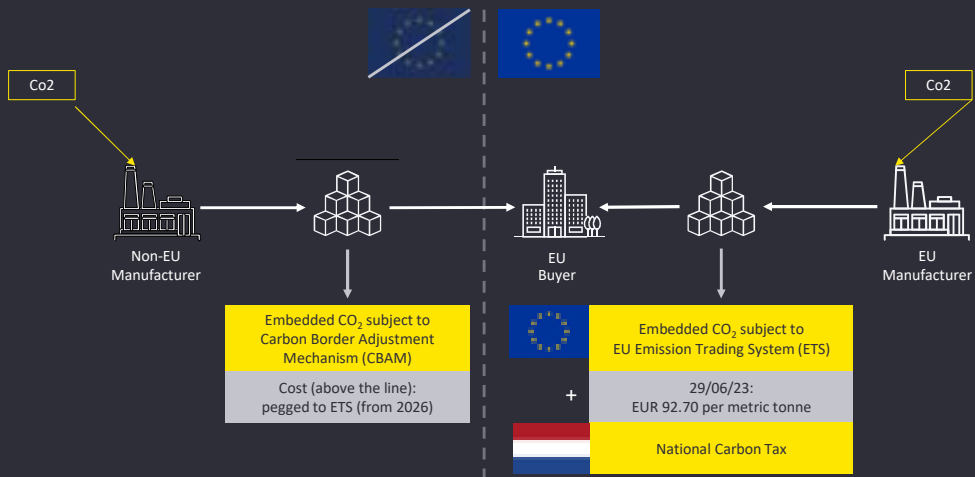
- The Carbon Border Adjustment Mechanism (CBAM) is the EU's new regulation to address the risk of carbon leakage.
- Imports of carbon-intensive goods will now face a carbon price aligned with the price applied to EU producers.

An aerial photograph of a road winding through a dense forest. The road is illuminated with a warm, golden light, creating a strong contrast with the dark green foliage. A large, semi-transparent grey number '2' is overlaid on the left side of the image. The text 'The EU's Carbon Border Adjustment Mechanism (CBAM)' is positioned to the right of the number.

## The EU's Carbon Border Adjustment Mechanism (CBAM)

10

## How does CBAM operate?

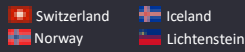


## Key facts

### Scope



Imports from non-EU, except product originating in:



Good categories in scope:

- Electricity
- Iron and steel
- Aluminium
- Hydrogen
- Fertilisers
- Cement

### Emissions covered



**Direct & indirect emissions**  
related to manufacture + electricity

Footprint calculation may at some point be extended to cover further indirect emissions, e.g. transportation

### Transitional period reporting

On 1 October 2023, the transitional period came into effect. Businesses in scope are required to submit quarterly CBAM reports containing information on the embedded emissions for imports of goods in scope.

The data required for these reports will likely not be readily available for declarants, with many businesses reporting on embedded emissions for the first time.

### CBAM review

Before 2026, the European Commission will conduct a review of the scope of CBAM. From 2026, the potential expansion of CBAM may include:

- Mineral oil products
- Lime
- Glass
- Ceramics
- Pulp
- Paper
- Cardboard
- Acids
- Bulk organic chemicals
- Further downstream goods

The scope of CBAM is expected to include all EU ETS goods by 2030.

### CBAM certificates

Following the transitional period, from 1 January 2026, declarants must purchase and surrender CBAM certificates to cover embedded emissions in their imports.

The price of CBAM certificates will be calculated based on the previous week's average ETS auction closing price, equalizing the carbon price paid for domestic and imported goods.

## Areas of potential indirect and direct impact



UK Manufacturer

### Indirect impact — Cost and Compliance

This **manufacturer** will be asked by its customer to calculate and provide emissions data based on EU law. The cost prices of materials purchased may increase over time.

UK Distributor

### Indirect impact - Compliance

This **distributor** will be asked by its customer to provide emissions data of the supplier/manufacturer.

EU Buyer/Distributor

### Direct impact

This **client** is required to report (2023) and pay for (2026) embedded emissions to the EU authorities. It may be a subsidiary of a UK company.

EU Buyer/Manufacturer

### Indirect impact — Cost

This **customer** may find cost prices of materials purchased increased and may seek suppliers that manufacture causing less emissions.





## EU CBAM Transitional Period

The European Commission adopted the final Implementing Regulation on 17 August which set out the governing the rules for businesses during the transitional period running from **1 October 2023** to **31 December 2025**.

### Registration and Reporting

#### Transitional Registry

- All reports must be submitted to the Transitional CBAM Registry through the CBAM Trader Portal

#### Registration as an authorised declarant

- Businesses must register as an authorised declarant to access the Transitional Registry and submit reports

#### CBAM reports

- Detailed CBAM reports must be submitted quarterly
- 150 EUR de minimis threshold for requirement to report

#### Collection of data from installation operators

- Data on the embedded emissions of goods must be collected from installation operators with quarterly communications

### Enforcement and compliance

#### Incomplete or inaccurate reports

- Submitting wrongful or inaccurate information will see declarants face penalties
- Reports without justification for any derogation in specified methodologies will be non-compliant

#### Modifications

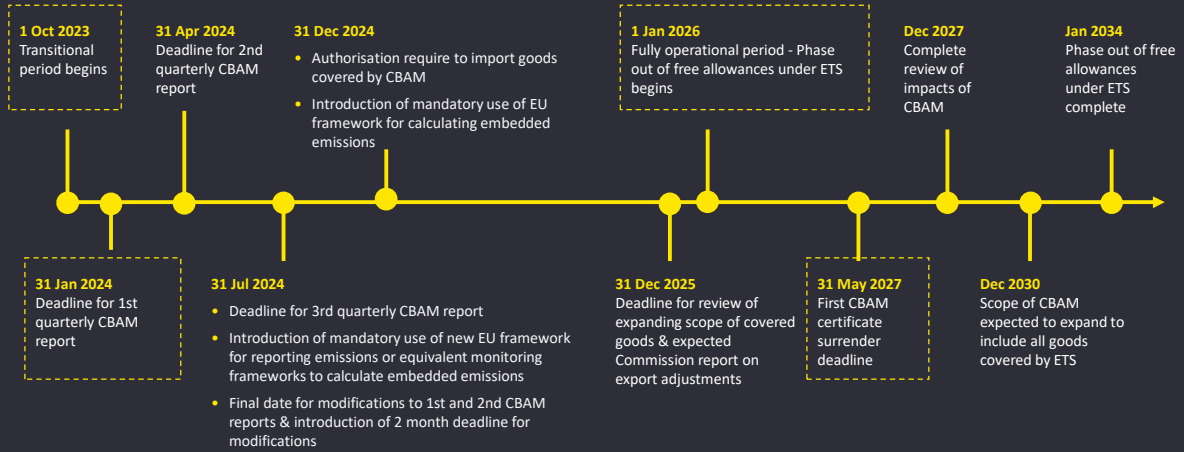
- Reports may be amended for up to a month after submission, with an extended grace period for the first 2 reports

#### Penalties

- Non-compliance with the regime will see penalties of EUR 10-50 per tonne of unreported emissions with higher penalties applying for 2 consecutive incomplete or incorrect reports
- From 1 Jan 2025, goods will be stopped at the border if the importer is not an authorised declarant

## The transitional period begins in October this year, with costs arising from 2026

CBAM will be introduced in a phased approach from 1 October 2023, with gradual changes in the required approach to calculating embedded emissions. Further, the scope of CBAM is expected to be expanded over time alongside incremental reductions in the allocation of free allowances under the ETS.





## National Competent Authorities (NCAs)

NCAs	EU Member State	NCA	EU Member State	NCA
<p>Each EU Member State will appoint an NCA which is responsible for the implementation of CBAM in their jurisdiction.</p> <p><b>Role of the NCAs</b></p> <p>During the transitional phase, NCAs are responsible for overseeing registration as an authorised declarant and therefore access to the EU Trader Portal, where CBAM reports are submitted.</p> <p>Entities are required to register with the NCA in each Member State where they import goods to the EU.</p>	Austria	Customs Authority	Italy	Ministry of Environment and Energy Security
	Belgium	Federal Public Service for Health, Food Chain Safety and Environment	Latvia	State Revenue Service
	Bulgaria	Executive Environment Agency	Lithuania	Environmental Protection Agency
	Croatia	Customs Administration, Ministry of Finance	Luxembourg	Environment Agency
	Cyprus	Department of Environment, Ministry of Agriculture, Rural Development and Environment	Malta	Malta Resources Authority (MRA)
	Czechia	Customs administration, Ministry of the Environment	Netherlands	Dutch Emissions Authority
	Denmark	Danish Energy Agency	Poland	National Centre for Emissions Management, The Institute of Environmental Protection – National Research Institute
	Estonia	Environmental Board	Portugal	Portuguese Environment Agency
	Finland	Customs Authority	Romania	Ministry of Finance
	France	<i>Département de lutte contre l'effet de serre, Direction Générale de l'Energie et du Climat</i>	Slovakia	Ministry of Environment
	Germany	<i>Deutsche Emissionshandelsstelle (Emissions)</i>	Slovenia	Financial Administration of the Republic of Slovenia
	Greece	Ministry of National Economy and Finance	Spain	Ministry for Ecological Transition and Demographic Challenge
	Hungary	National Climate Protection Authority	Sweden	Environment Protection Agency (EPA)
	Ireland	Environmental Protection Agency		

17



## The fully operational period

From 1 January 2026, CBAM will enter into its fully operational period, with businesses facing financial implications in addition to reporting obligations. While further information and guidance on the functioning of the regime will be published prior to the fully operational period, the adopted regulation provides us with information on key considerations for businesses.

### Fully operational period – From 1 January 2026

#### Product scope

- Before the end of the transitional phase, the product scope of CBAM will be reviewed by the European Commission
- It is anticipated that the scope of CBAM will be expanded to include oil products, ceramics, glass, lime, pulp, paper, cardboard and acids.

#### CBAM certificates

- CBAM certificates must be purchased and surrendered annually
- The price of certificates will be linked to ETS
- Every quarter, declarants must hold certificates covering 80% of total emissions
- Only 1/3 of certificates purchases will be repurchased

#### Verification of reports

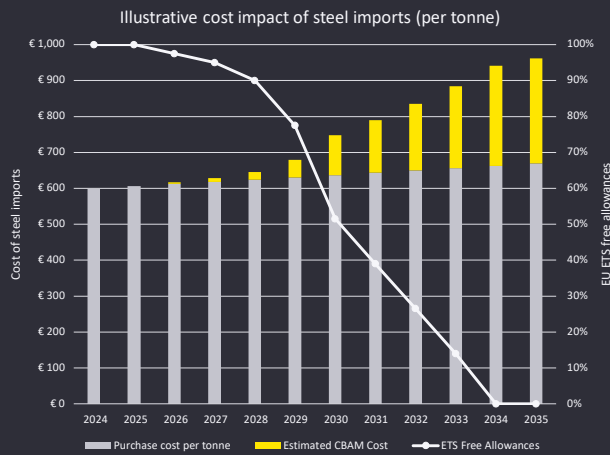
- CBAM declarations must be verified by an accredited verification body
- Verification bodies will be appointed by national competent authorities
- Further guidance is required on the verification process

#### Phase-in of cost impacts

- The financial impacts of CBAM will be phased in to align with the phase out of free allowances under EU ETS
- The phase in of CBAM financial costs will take place in annual increases, with 100% coverage by 2034

## Financial impact of CBAM

The cost implications of CBAM will vary across sectors; however, the impact on the landed cost of products in scope will be material. From the beginning of the fully operational period on 1 January 2026, the cost impact of CBAM will be gradual in line with the phased reduction of EU ETS free allowances.



\*Figures are for illustrative purposes only and based on assumptions on the market price of steel, the price of CBAM certificates and embedded emissions.

### Illustrative cost impact of CBAM on steel imports

Following the transitional phase, CBAM will have a **gradual but significant financial impact on iron, steel and aluminium imports.**

Once EU ETS free allowances are completely phased out, the cost of CBAM on steel could account for over **42% of the total import cost of steel.\***

	Cost per tonne of steel	CBAM certificate cost	CBAM cost as proportion of total cost
2024	€600	€0	<b>0.00%</b>
2030	€636.91	€111.14	<b>17.40%</b>
2034	€662.77	€278.54	<b>42.04%</b>

#### Assumptions:

Embedded emissions per tonne (in t/CO <sub>2</sub> )	1.8
Purchase price of steel (per tonne)	€600
Base price of CBAM certificate	€95
y/y change in commodity price	1%
y/y change in price of CBAM certificate	5%

## Timeline of implementation

CBAM will be introduced in a phased approach, with gradual changes in the required approach to calculating embedded emissions. Further, the scope of CBAM is expected to be expanded over time alongside incremental reductions in the allocation of free allowances under the ETS.



## Forthcoming EU consultations

Establishment of CBAM  
Registry

Authorising CBAM  
Declarants

Sale and repurchase of  
CBAM Certificates

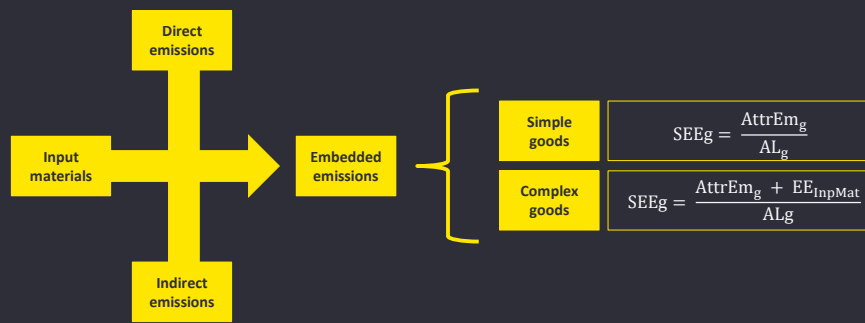
Conditions for granting  
accreditation to  
verifiers

Accreditation of  
verifiers and  
verification  
principles

Rules for customs  
procedures and  
communication  
requirements



## Calculation of embedded emissions: Overview

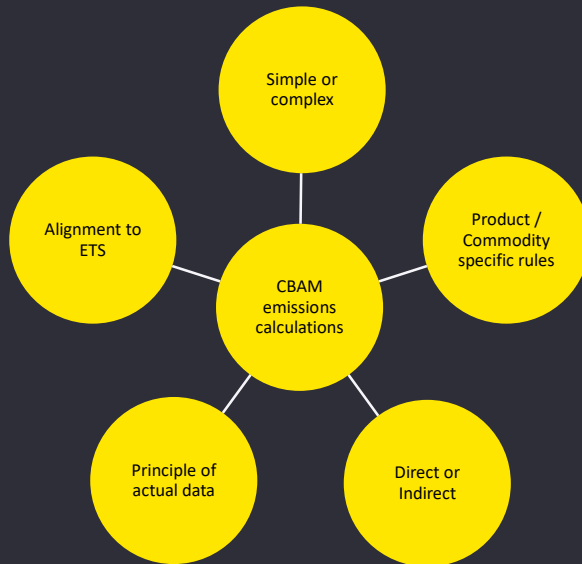




## Transition to actual data



## Calculation methods: Key considerations & data challenges



Data required from suppliers for each product commodity type:

- Quantity of goods supplied
- Direct emissions: (energy use in production and production processes)
- Indirect emissions (upstream electricity)
- Input materials (raw materials and components)
- Extent to which the embedded carbon has already been subject to tax
- Overall emissions profile of supplier facility

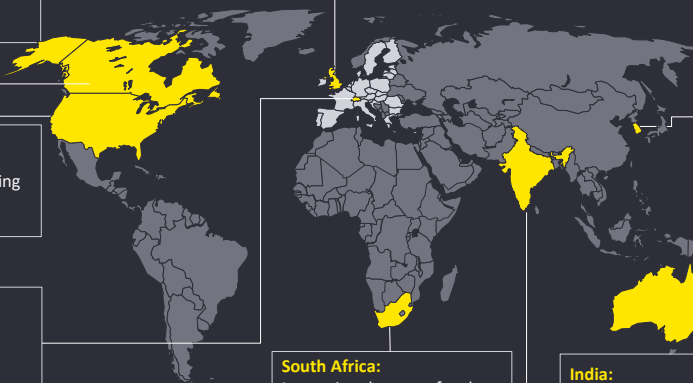


## EU CBAM is acting as a key driver for developments in international carbon pricing policy – snapshot of global activity

**Canada:**  
Consulting on the potential for a Border Carbon Adjustment

**United States:**  
Administration "considering a carbon border tax"

**Switzerland:**  
Swiss CBAM being considered, awaiting Parliament discussion



**United Kingdom:** UK CBAM by 2027

**South Korea:**  
Consulting with industry on changes to the K-ETS

**Australia:**  
Australian CBAM being considered, awaiting detailed policy analysis

**South Africa:**  
Increasing the rate of carbon tax

**India:**  
Legislating for National Carbon Market

Sources: Canada [Government of Canada](#), United States [White House Secrets](#), United Kingdom [gov.uk](#), South Korea [International Carbon Action Partnership](#), South Africa [UBS](#), India [CAP](#)

# UK Carbon Border Adjustment Mechanism

## Overview

On 18 December 2023 the UK Government announced the **UK Carbon Border Adjustment Mechanism (UK CBAM)** will be implemented by 2027.

The announcement follows consultation in March-June 2023, where the UK Government sought views on the nature and extent of carbon leakage risk to UK industry, and the potential design and implications of policies to address risks.

With the UK CBAM scheduled for 2027, the UK Government has indicated additional consultation will take place on the design and mechanics of the UK CBAM in 2024.

## Function of the UK CBAM

UK CBAM will apply a tariff on imports of products, based on the embedded emissions. UK CBAM will exist as a customs-orientated regime, with liability resting with an importer of record for products in scope.

## Scope of UK CBAM

The envisaged scope of UK CBAM is **expected to diverge** from the EU equivalent.

While both the UK and EU CBAM will cover **iron and steel, aluminium, cement, hydrogen and fertilisers**, the **UK CBAM will include ceramics and glass**. Unlike the EU's, the UK CBAM is *not* expected to cover electricity.

The final goods to be covered by UK CBAM will remain unclear until a full list of products is published, however we do know that the UK will seek to ensure "comparative coverage" with the UK Emission Trading Scheme (UK ETS).

**Further detail is expected in 2024** to confirm whether any transitional periods or a phased introduction of the UK CBAM will occur.

## Preliminary details of the UK CBAM

### Emissions applicability:

- The UK CBAM will be applied to Scope 1, Scope 2 and selected precursor product emissions in imported goods.
- As with the EU CBAM, Scope 3 emissions will not initially be included in the UK CBAM.

### Carbon prices paid outside the UK:

- Like the EU CBAM, carbon prices paid in other jurisdictions will be noted when calculating the UK CBAM price.
- As with the EU CBAM, it is not yet known which explicit carbon prices will be accepted through the UK CBAM.

### Coordination with the UK ETS:

- In December 2023, the UK ETS Authority announced two consultations focused on improving the UK ETS, and the introduction of financial impacts aligned between the UK CBAM and UK ETS.



## Next steps

- 1 Assess whether **amendments are required** to the first EU CBAM reports and **develop a process for amendments** in future EU CBAM reports.
- 2 Start collating data for the **second quarterly EU CBAM report due on 30 April 2024**. The second report covers imports of CBAM goods from **1 January 2024 to 31 March 2024**.
- 3 Develop process for **collecting actual emissions data**, including through engaging suppliers.
- 4 **Incorporate the financial impact of CBAM certificates** and conduct modelling to calculate potential financial liability based on actual emissions data, using a range of potential future carbon prices and accounting for the phase-in of cost impacts.
- 5 **If used, engage with indirect representatives** to establish a long-term process for the submission of EU CBAM reports during the **fully operational period**, including the purchase and surrender of EU CBAM certificates.
- 6 Consider whether to **respond to the upcoming EU consultations** on the fully operational period of EU CBAM and the **UK consultation on the design of UK CBAM**.





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