



EU Carbon Border Adjustment Mechanism (CBAM) - Provisional Agreement

On 13 December 2022, a provisional agreement between the European Parliament and the Council of the European Union (EU) has been reached for the implementation of the so-called EU Carbon Border Adjustment Mechanism (CBAM). Under this agreement and in relation to the earlier proposals in this regard:

- ▶ CBAM will apply from 1st October 2023 (previously 1st January 2023), with a transitional period linked to the phasing out of free allowances under the EU Emission Trading System (EU ETS). The full implementation of the Mechanism is currently expected to be set for 1st January 2027.
- ▶ The scope of the proposed CBAM has been extended to hydrogen, certain precursors, and only certain indirect emissions, as well as downstream products.
- ▶ Governance of CBAM will be centralized with most activities managed by the European Commission.
- ▶ Formal approval of the agreement by the European Parliament and the Council of the EU will be required before the new law in the form of a European Regulation can come into force.

More specifically:

- ▶ In July 2021, the European Commission introduced its climate package of 13 interconnected legislative proposals and revisions (Fit for 55). The package is a key enabler for a climate-neutral Europe by 2050 and in reducing emissions by 55% from 1990 levels by 2030, in line with the ambitions and targets of the European Green Deal.
 - ▶ One of the most important components of this package is CBAM, the main objectives being to contain carbon leakage, to maintain production/manufacturing within the EU and the resulting competitiveness of European producers/manufacturers, as well as to ensure the EU commitment to a climate-neutral Europe by 2050.
 - ▶ In substance, CBAM imposes a price on carbon emissions that occur during the production of certain categories of products that are imported into the EU, from countries where these emissions are not taxed or taxed disproportionately compared to the pricing regimes within the EU.
 - ▶ CBAM will apply to the following categories of products that are imported into the customs territory of the EU, according to their classification per Combined Nomenclature code:
 - ▶ Iron and steel including some downstream products (e.g., screws, bolts)
 - ▶ Cement
 - ▶ Aluminum
 - ▶ Fertilizers
 - ▶ Electricity
 - ▶ Hydrogen
 - ▶ The above scope of CBAM will be assessed before the end of the transition period and might be extended to include other product categories including organic chemicals and polymers, with the overall aim for the scope to potentially include all goods covered under the EU ETS by 2030 (e.g., mineral oil products, lime, glass, ceramics, pulp, paper, cardboard, acids, and bulk organic chemicals, etc.).
 - ▶ From 1st October 2023 and for the duration of the transitional period, businesses will have only reporting obligations.
 - ▶ From 1 January 2027, when the Mechanism is expected to be fully implemented, liable companies will also bear the financial burden of the measure by being required to pay guarantees and purchase CBAM certificates. These certificates cannot be traded on the EU ETS market and will initially be subject to a "free allowances" scheme (similar to the EU ETS scheme).
 - ▶ Only businesses recognized as authorized declarants on the basis of a license issued by the appropriate authorities in line with specific compliance requirements may file CBAM declarations.
 - ▶ For goods imported into the EU that have been already subject to carbon pricing regimes in the country of production, the CBAM charge will take these charges into account.
 - ▶ CBAM will not apply to the importation of cargo up to €150.
 - ▶ CBAM will not apply to goods originating in specific countries and areas like Iceland, Lichtenstein, Norway, Switzerland etc. Therefore, determining the country of origin in accordance with the customs rules remains crucial.
- In view of the above, CBAM will impact businesses both in the EU and across the globe, from an operational and strategic decision-making perspective. These impacts may be either direct or indirect. Therefore, businesses would need to adopt a holistic approach toward the new Mechanism across their value and supply chain.
- In this context, actions for businesses would indicatively include:
- i. Identify those within the organization responsible for the management of the new Mechanism,
 - ii. Determine the CN-codes and country of origin of the goods imported into the EU to determine whether they fall under the scope of the CBAM Regulation.
 - iii. Assess the financial impact of CBAM based on the current supply chain and take appropriate actions to mitigate the financial impact by rethinking e.g., the structure of the supply chain, sourcing strategy, production planning etc.
 - iv. Rethink the future EU importation set-up, considering the financial burden due to customs duties and CBAM, as well as the administrative burden in order to duly comply with the applicable procedures, including reporting requirements and information confidentiality considerations.

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