



## EU Carbon Border Adjustment Mechanism

*The European Union's (EU) Carbon Border Adjustment Mechanism (CBAM) is a new regulatory tool aimed at tackling carbon leakage resulting from differences in carbon pricing and climate regulations among countries. This mechanism seeks to safeguard domestic industries against unfair competition, while ensuring a level playing field for EU countries with ambitious climate targets and preventing the relocation of carbon-intensive activities to regions with less stringent environmental standards.*

### How CBAM will work

The operational framework of CBAM involves the implementation of a carbon price on specific goods imported into the EU, which will be determined based on the emissions from the production processes that are embedded in these goods. The carbon price is aligned with that of the European Emissions Trading System (EU ETS), while the rate is reduced by a local carbon tax paid in the exporting country if applicable. Importing companies will be required to report the direct and indirect embedded emissions associated with the goods they import into the EU. Companies importing CBAM products will be obligated to purchase corresponding CBAM certificates from EU authorities for each tonne of carbon emission embedded in the products.

The introduction of the EU CBAM has significant implications for global trade dynamics. As the EU imposes a carbon price on imported goods, it may lead to shifts in trade flows and competitiveness. Non-EU companies will need to consider the carbon intensity of the products they export to the EU market, potentially driving changes in production practices and encouraging the adoption of cleaner technologies. Simultaneously, free allocation of ETS allowances will be reduced, increasing the price of carbon within the EU. This dynamic aims to create a level playing field by ensuring that imported goods align with the EU's ambitious climate policies and internal carbon pricing mechanism. It also fosters dialogue and cooperation between the EU and its trading partners to address shared climate challenges.

### In scope for CBAM

The products initially covered by CBAM are:

<u>Product category</u>	<u>Examples of Products</u>
Iron & Steel	Steel plates, pipes, iron bars, iron or steel screws and bolts
Aluminum	Aluminum sheets, bars, and profiles
Cement	Portland cement, cement clinkers, Calcined clay, and aluminous cement
Hydrogen	Hydrogen gas
Fertilizers	Mineral, chemical fertilizers, ammonia, and nitric acids
Electricity	Electricity used during the production of CBAM goods

CBAM will encompass a range of products, including iron, steel, aluminum, cement, hydrogen, and fertilizers. Direct emissions and indirect emissions of all products are included in the reporting period, while indirect emissions of iron and steel, aluminum, and hydrogen are excluded for the definitive period. Before 2026, the EU Commission will assess the possibility of expanding the scope to include indirect emissions of iron, steel, aluminum, hydrogen, and even further the embedded emissions from the transport of the CBAM goods listed. At the same time, the product scope of the CBAM mechanism will be reviewed to assess the feasibility of including by 2030 other goods produced in sectors covered by the EU ETS and goods susceptible to carbon leakages, such as certain downstream products and those identified as suitable candidates during negotiations (i.e. chemicals and polymers).

### From when CBAM will apply

Recognizing the magnitude of the changes brought about by CBAM, a transition period has been established between October 1, 2023 – December 31, 2025, leading up to its full implementation in 2026. This period allows industries, importers, and other stakeholders time to adapt to the new regulatory framework. It offers an opportunity for businesses to assess and adjust their operations, supply chains, and reporting systems to comply with CBAM requirements. During this phase, industry players can proactively explore carbon reduction strategies, invest in cleaner technologies, and enhance their carbon accounting capabilities. The transition period serves as a crucial phase for building resilience, promoting innovation, and ensuring a smooth integration of CBAM into the business practices of affected industries. The deadline for filing the quarterly reports will be 1 month after the end of each quarterly reporting period. Therefore, the deadline for the first report is January 26, 2024. When the



definitive reporting period starts in 2026, authorized declarants must submit a CBAM declaration to the competent authority by May 31 of each year, reporting on the previous calendar year. Furthermore, starting in 2026, importers will be required to surrender CBAM certificates, acquired through auctions, for the imported products. There will be a phase-in with increasing coverage of embedded emissions from imported goods starting in 2026. The full embedded emissions will be covered from 2034 onwards.

**The CBAM declaration should include the information below.**

1.	The total quantity of each type of CBAM goods imported during the calendar year
2.	The total embedded emissions, expressed in tones of CO2 emissions
3.	The total indirect emission, expressed in the amount of electricity consumed with an emission factor for the CBAM goods
4.	The total number of CBAM certificates corresponding to the total embedded emissions, to be surrendered, after the reduction due on the account of the carbon price paid in the country of origin and the adjustment necessary of the extent to which EU ETS allowances are allocated free of charge for comparable EU produced goods.

**The quarterly CBAM process**

We have outlined below the process of CBAM compliance from the importation of non-EU countries to the filing of quarterly report in the transitory CBAM registry of the EU Customers Trade Portal in a simplified 6 steps process:

**(1) Imports of Goods:** The importer (reporting declarant) receives CBAM goods from various installations, possibly from different countries outside the EU.

**(2) Customs declaration:** For each import, the importer lodges the usual customs declaration. The customs authority of the relevant EU Member State checks and clears the import, as usual.

**(3) Information of import:** The customs authority informs the European Commission using the CBAM Transitional Registry of this import. This information can then be used to check the completeness and accuracy of quarterly CBAM reports.

**(4) Request data on embedded emissions:** The reporting declarant requests the relevant data on specific embedded emissions of the imported CBAM goods from the operators. The latter reply by sending the requested data, if possible, using the template provided for this purpose by the Commission. The data may be voluntarily verified by a third-party verifier.

**(5) Quarterly reports on embedded emissions:** The reporting declarant is then able to submit the quarterly CBAM report to the CBAM Transitional Registry of the EU Customers Trade Portal.

**(6) Information exchange/penalty risk:** An information exchange between the Commission and the competent authorities in the EU Member States takes place. The Commission informs based on the customs data, which reporting declarants are expected to submit CBAM reports. Where irregularities are identified, the Commission informs the competent authority of this.

**At RSM Netherlands, our approach to the CBAM involves gaining a deep understanding of our clients' businesses, corporate structures, and their current positioning in terms of CBAM implementation and compliance framework. If you have any questions about this article, please contact Gidion Lont ([glont@rsmnl.nl](mailto:glont@rsmnl.nl)) - +31(0)6-82620632)**