The Carbon Border Adjustment Mechanism

A new, green way of pricing carbon in imports to the EU

16 November 2023, Beijing

European Commission DG TAXUD
The Carbon Border Adjustment Mechanism

1. General presentation on CBAM
2. The Transitional Period (2023-2025)
3. The Definitive Period (from 2026)
The Carbon Border Adjustment Mechanism

1 General presentation on CBAM
The European Green Deal

- Union-wide climate-neutrality objective 2050
- New 2030 target of at least 55% net greenhouse gas emissions reduction

A socially fair transition
A competitive transition
A green transition

Legislative package launched in July 2021 and adopted by October 2023
What is the aim?

Prevents carbon leakage to ensure effectiveness of EU climate policy

Contributes to decarbonisation globally and to reaching EU climate neutrality by 2050

Complements and reinforces the EU ETS
How do we do this?

Mirror EU carbon pricing through new mechanism for imports into EU

Addressed to companies, not countries, based on actual carbon content of imported goods

Aligned with EU’s international policies and legal commitments, including WTO compatibility

Focus on carbon-intensive sectors

Takes into account carbon price effectively paid by third-country operator
What are the sectors in scope?

- **Selected on the basis of 3 criteria:**
  - High risk of carbon leakage (high carbon emissions; high level of trade)
  - Covering large share of greenhouse gas emissions of EU ETS sectors
  - Practical feasibility

- **Exclusions** (under 150 € / countries linked with the EU ETS)

- In the future, scope may be extended to a limited list of ETS sectors at risk of carbon leakage (such as refineries and chemicals), provided that such an extension is justified based on selected criteria
CBAM methodology: from installation to goods

- scope of the EU ETS is based on installations
- scope of the CBAM is based on goods
- CBAM methodology will translate methods to determine emissions from installations’ to goods’ levels
- means setting rules to narrow the system boundaries from production sites down to the level of goods
Gradual implementation of CBAM

**Transitional period**
**October 2023 - December 2025**

**Monitoring and reporting**
(Implementing Regulation (EU) 2023/1773)

**Post-transitional period**
**January 2026 onwards**

**2023**

**2024**

**2025**

**2026**

**Review 2025**
- Assessment feasibility / proportionality of scope extension post 2026, including to
  - a limited set of EU ETS sectors at risk of carbon leakage (e.g. refineries/ chemicals);
  - a selected number of downstream products which contain a high share of basic CBAM goods;
  - indirect emissions
- Impact on LDCs
- Progress in international climate discussions

**Start of gradual phase-in of CBAM/phase-out of free ETS allocation**
International cooperation framework

- **CBAM can be complemented** by bilateral, multilateral and international cooperation with non-EU countries

- **Establishment of a dialogue** between countries with carbon pricing instruments

- **Building on other international initiatives** (e.g. OECD’s “Inclusive Forum for Climate Mitigation Approaches”)

→ **Paving the way for ambitious climate policies and global carbon pricing**
CBAM is an internationally open mechanism

CBAM is open to decarbonisation efforts in third countries and favours international coordination thanks to a four-tier system:

1. **Actual emissions** methodology – CBAM is based on **embedded emissions** of the imported good
2. Deduction of the **carbon price paid in third countries** from the adjustment on imported products
3. Countries applying EU ETS or linked to it will be excluded
4. Special rules on electricity for countries whose electricity market is “coupled” with the Union internal market for electricity
Guidance and support by the Commission

- **Training**
  - E-learning (General and sector-specific)
  - Webinars (General and sector-specific)

- **Guidance**
  - Tailored guidance documents for:
    - Producers in third countries
    - Reporting declarants

- **Templates**
  - Excel-based template to facilitate data collection and information exchange

- **Dedicated information portal**
  - Launch of dedicated Commission website with all information, Q&A and “how to find” guidance

- **IT reporting interface – transitional registry**
  - Dedicated IT interface for reporting of information
  - Detailed guidance for users
Where to find further information on CBAM?

Visit the CBAM webpage regularly – our one-stop shop


- Link to the CBAM Transitional Registry
- 2 guidance documents
- Communication template between importers and operators
- Registration to dedicated webinars
- Links to recordings of webinars through the Customs and Tax EU Learning portal
- Link to our E-learning materials through the Customs and Tax EU Learning portal
- Q&A and factsheet
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2 The Transitional Period (2023-2025)
Objectives of the transitional period

- The transitional period is a **learning phase** for all:
  - Understanding respective roles and tasks
  - Collection of information
  - Facilitate smooth roll-out of the mechanism after the 2025

- The information collected will allow the European Commission to further specify and finalise the methodology and find synergies with existing monitoring schemes

- **The information collected will feed into the review of the mechanism by 2025** and provide further clarity of the functioning

- **Reporting flexibilities** reflect the above and aim to introduce openness and balancing a smooth introduction with information needs
What are the reporting obligations in the transitional period?

October 2023 – December 2025

CBAM report containing the following:
- Total quantity of goods imported during the preceding quarter
- Total embedded direct and indirect emissions
- The carbon price due in the country of origin for the embedded emissions

Report to be submitted quarterly

No verification of emissions by EU-accredited verifier
No CBAM certificates
## How to submit a report?

### Who is responsible for the reporting?
- The reporting declarant
- Same as the authorised CBAM declarant but not authorisation needed yet

### How to submit a report?
- Gain access to the CBAM transitional registry – request log-in via portal
- Fill out mandatory fields in the registry
- Indicate if reporting is by importer or on behalf of an importer
- Submit the report no later than 1 month after the quarter

### Is there flexibility for the submission?
- Yes – A report can be modified 2 months after the reported quarter
- For the first two CBAM reports (due Jan and April 2024) modification is accepted until **July 2024** (deadline of third report)
- After the deadlines possibility to request reopening for correction (IA-Article 9-3)
What to submit?

Role of third-country operators of installations

• **Monitor and collect data** on embedded emissions – Possibility to use templates and guidance docs provided by the Commission
• **Communicate** data to reporting declarants – Possibility to use templates provided by the Commission
• Is verification needed: **Not yet**!

What information is necessary to be communicated for the reporting

• **Information on the goods**: Quantity / Type identified by CN code (8-DIGIT) / Country of origin
• **Info on the installation**: Company name / Address / Location / Geo coordinates
• **Info on the production**: Routes / Parameters
• **Information the emissions**: Specific direct and specific indirect
• **Information on carbon price paid** at production country (also for precursors)
Flexibilities for the calculation of embedded emissions

- **Until 31 July 2024**, for each import of goods for which the reporting declarant does not have all the information listed in Article 3(2), the reporting declarant may use **other referenced methods for determining the emissions**, including **default values**

- **Until 31 December 2024**, **other monitoring and reporting methods may be used**, if they lead to **similar coverage and accuracy**. They could be based on:
  - a carbon pricing scheme where the installation is located, or
  - a compulsory emission monitoring scheme where the installation is located, or
  - an emission monitoring scheme at the installation which can include verification by an accredited verifier

- **Without time limit**, use of **estimations for up to 20% of the total embedded emissions of complex goods**
What is the scope for emissions during the transitional period?

In CBAM scope

- **SCOPE 1**
  - Direct
  - Emissions generated from the production of CBAM goods at installation level (¹)

- **SCOPE 2**
  - Indirect
  - Electricity consumed for the production of CBAM goods

- **SCOPE 3**
  - Indirect
  - Input material under CBAM scope (in the case of complex goods)

Not in CBAM scope

- **SCOPE 3**
  - Indirect
  - Consumption, transportation and distribution and end of life

(¹) Direct emissions include emissions from the production of heating and cooling, even if that production takes place outside the installation.
Who are the reporting declarants?

Rules for Customs Representatives

- **Indirect customs representative** (Status: Importer)
  - **Importer** or **indirect customs representative** may be the reporting declarant

- **Direct customs representative** (Status: Customs Declarant)
  - **Importer** is the reporting declarant

- **No representation by others - Own import**
  - **Importer** is the reporting declarant

Subject to reporting obligations
What are the steps to comply with the reporting obligations?

**Step 1:** Define the scope of goods concerned

**Step 2:** Determine the monitoring period to use

**Step 3:** Identify all the parameters you need to report

**Step 4:** Collect data on carbon price due in jurisdiction if any
Who are the actors?

- **Operators of installations**
  - Emission data
  - Request for additional information or submission of report

- **Reporting declarants**
  - Information on CBAM obligations
  - Customs declarations
  - CBAM report

- **Customs authorities**
  - Import data

- **European Commission**
  - Conclusions
  - General analysis of information reported

- **National competent authorities**
  - Assessment of information

- **Checks**
  - Indicative assessment
What is the CBAM Transitional Registry? (1/2)

Key highlights

- Single platform to create synergies
- Tool to perform CBAM-related tasks
- Secured platform to ensure confidentiality of information

OUTSIDE THE REGISTRY

VIA THE REGISTRY
What is the CBAM Transitional Registry? (2/2)

https://cbam.ec.europa.eu/declarant
What are the reporting deadlines?

<table>
<thead>
<tr>
<th>REPORTING PERIOD</th>
<th>SUBMISSION DUE BY</th>
<th>MODIFICATION POSSIBLE UNTIL*</th>
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<tbody>
<tr>
<td>2023: October – December</td>
<td>2024: January 31</td>
<td>2024: July 31</td>
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<td>2024: January – March</td>
<td>2024: April 30</td>
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*After the modification deadline, reporting declarants may request reopening of the file before the national competent authority for eventual corrections.
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3 The Definitive Period (from 2026)
Basic overview of administration

**Customs**
- Checks authorisation of declarants
- Transmits information to the Commission

**Authorised CBAM declarant**
- Is authorised by the relevant Competent Authority of the Member State
- Declares yearly verified emissions embedded in imports and carbon price paid abroad
- Surrenders CBAM certificates

**Commission**
- Supervises both Customs and the national Authorities
- CBAM Registry
- Certificates price publication
- Anti-circumvention practices
- Takes account of carbon price paid abroad
- Controls CBAM declarations

**MS National Authorities**
- Authorise CBAM declarants
- Sell CBAM certificates
- Accredit verifiers
- Apply Penalties + deal with Appeals

**Producer outside EU**
- CBAM Goods

**Import data**

**Declaration + Surrendering**

**Emissions verified by accredited verifiers**
Phasing-out of free allocation and phasing-in of CBAM
Free Allocation → CBAM

- **Transitional CBAM**
  - EU ETS emissions in CBAM sectors
  - Reduction of free allocation due to "Fit-for-55"

- **CBAM partially phased in**
  - CBAM Information
  - CBAM Adjustment

- **CBAM fully phased in**
  - CBAM Adjustment

**Third-country emissions in CBAM sectors**

**Emissions covered by free allocation**

**Emissions covered by free allocation**

**2023-2025**

**2026-2033**

**2034 onwards**
Calculation of the adjustment

- Actual embedded emissions
- Emissions covered by free allocation
- Amount of goods
- EU ETS price

= CBAM Obligation

- Carbon price effectively paid abroad

= Adjustment
Thank you for your attention!

If you have any questions, please contact us:

TAXUD-CBAM@ec.europa.eu