



Carbon Border Adjustment Mechanism

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

*EU Commission, Brussels,
March 2023*

European Green Deal

Whole economy approach:

- **A socially fair transition:** tackling inequality and energy poverty through climate action,
- **A competitive transition:** New opportunities through industrial and sectoral change
- **A green transition:** Protecting nature and increasing Europe's natural carbon sink



Delivering the European Green Deal



CBAM – Basic concepts

Why do we need CBAM?

As the EU raises its climate ambition and differences in levels of ambition worldwide persist....

.. there is an increased risk of carbon leakage

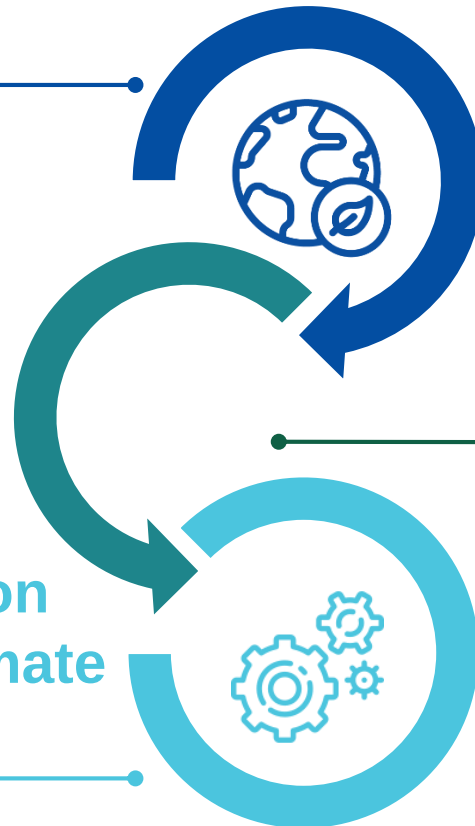
CBAM addresses this increased risk, as an environmental measure in support of the fight against global climate change.



So, what is the aim of the CBAM?

Prevent carbon leakage to ensure effectiveness of EU climate policy

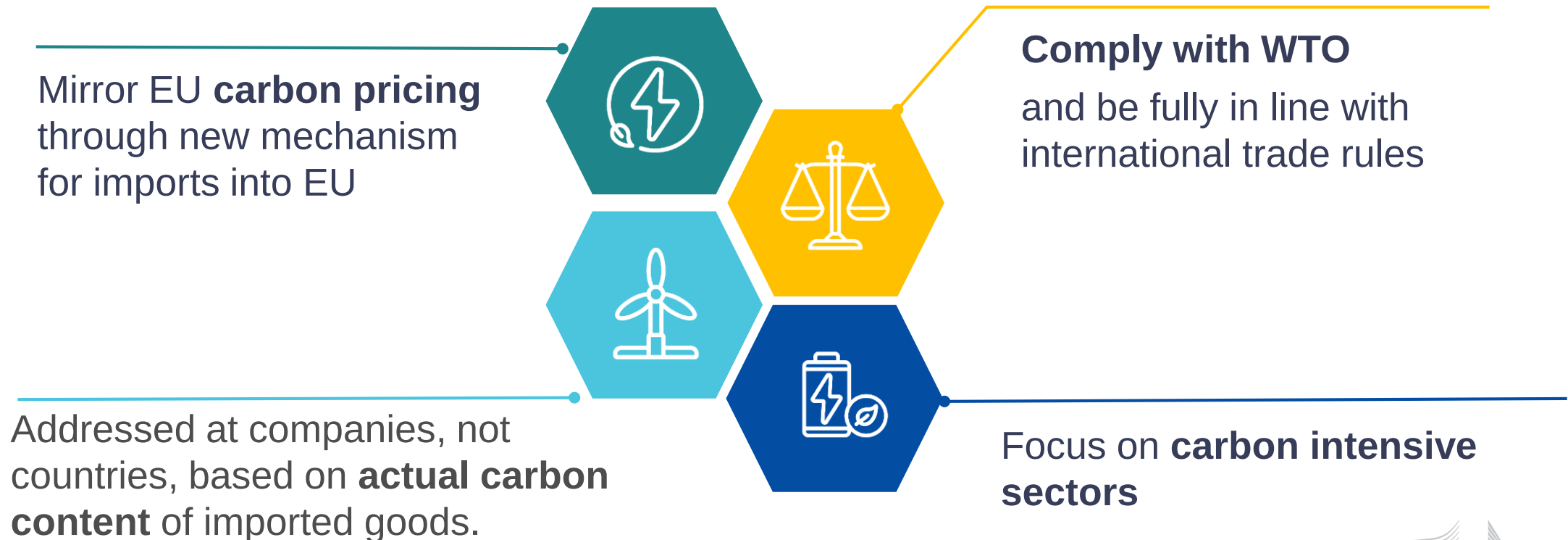
Contribute to decarbonisation globally and to reaching climate neutrality by 2050



Complements and reinforces the EU ETS

And how do we do this?

Four key elements of design



CBAM at a glance

- ❑ Focusing on actual carbon content in goods, not targeting countries!
- ❑ Companies are subject to CBAM only on individual merits and taking into account:
 - Actual carbon content of the imported goods;
 - Level of free allocations of EU ETS allowances in the EU;
 - Carbon price effectively paid in country of production.
- ❑ Possible exemption due to participation/linking to EU ETS
- ❑ Companies buy and surrender certificates to cover carbon content via annual declarations

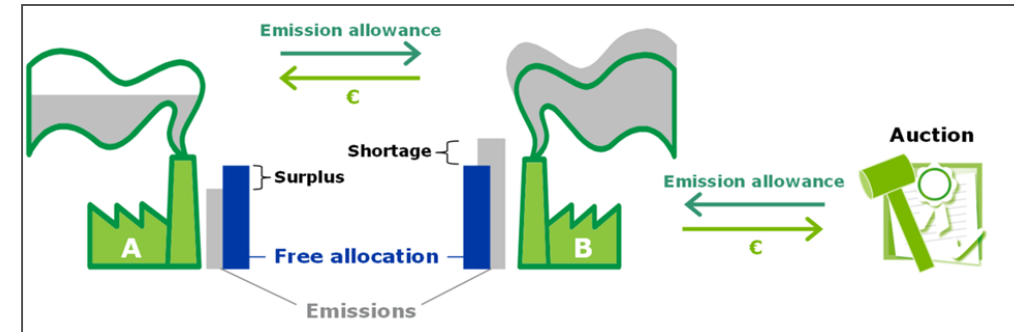
Background on the EU ETS

The EU Emissions Trading System (EU ETS) set an overall limit (“**cap**”) on the GHG emissions for the sectors included (currently power, industry, aviation, from 2024 also maritime and from 2027/8 - new ETS 2 for buildings, road transport and small industry).

The cap is reduced each year by a set amount based on the reductions targets, ensuring that total emissions fall.

Within the cap, companies receive or buy emission allowances, which they can trade as needed.

Allowances are placed on the market either by **auctioning** or **free allocation**. Then they are **traded** on the secondary market or **surrendered for compliance**.



Carbon Price

❑ Equal carbon pricing

- EU businesses pay a **carbon price on their production in the EU**
- **Imports will need to pay a carbon adjustment**, corresponding to the price they would have paid if the goods had been produced under the EU's carbon pricing rules (ETS).
- The CBAM charge will be adjusted to reflect the level of EU **ETS free allowances** allocated to EU production of sectors in scope.

❑ No double pricing

- **If a non-EU producer can show that they have already paid a carbon price** for the production of the imported goods in a third country, that amount can be deducted for the EU importer.

CBAM – Implementation

Sectors

- ❑ In the **first phase**:



CEMENT



IRON & STEEL



ALUMINIUM



FERTILISER



ELECTRICITY



HYDROGEN

- ❑ Includes some precursors and downstream products
- ❑ Selected on the basis of 3 criteria:
 - ✓ *High risk of carbon leakage (High carbon emissions; High level of trade)*
 - ✓ *Covering more than >45% of CO2 emissions of ETS sectors*
 - ✓ *Practical feasibility*
- ❑ In a **second stage**, extended to other sectors

Gradual implementation of CBAM

**Gradual
phase-in**
to allow
businesses
to adjust

Transitional phase
**October 2023-
December 2025**

Monitoring and reporting
Implementing rules to
be adopted by the
CBAM Committee

Post-transitional phase
January 2026 onwards

Phase out of free allocation
Phase in of CBAM

Review
2025

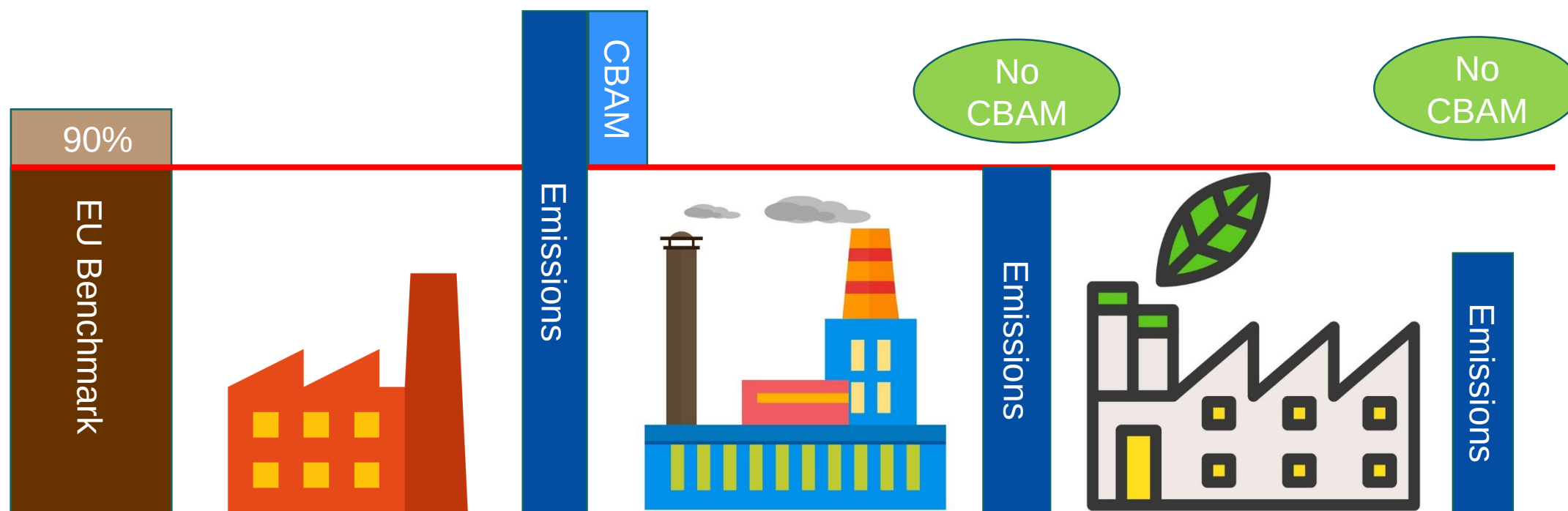
Scope extension
Indirect emissions
Exports

Phasing out of free allocation / Phasing-in of CBAM

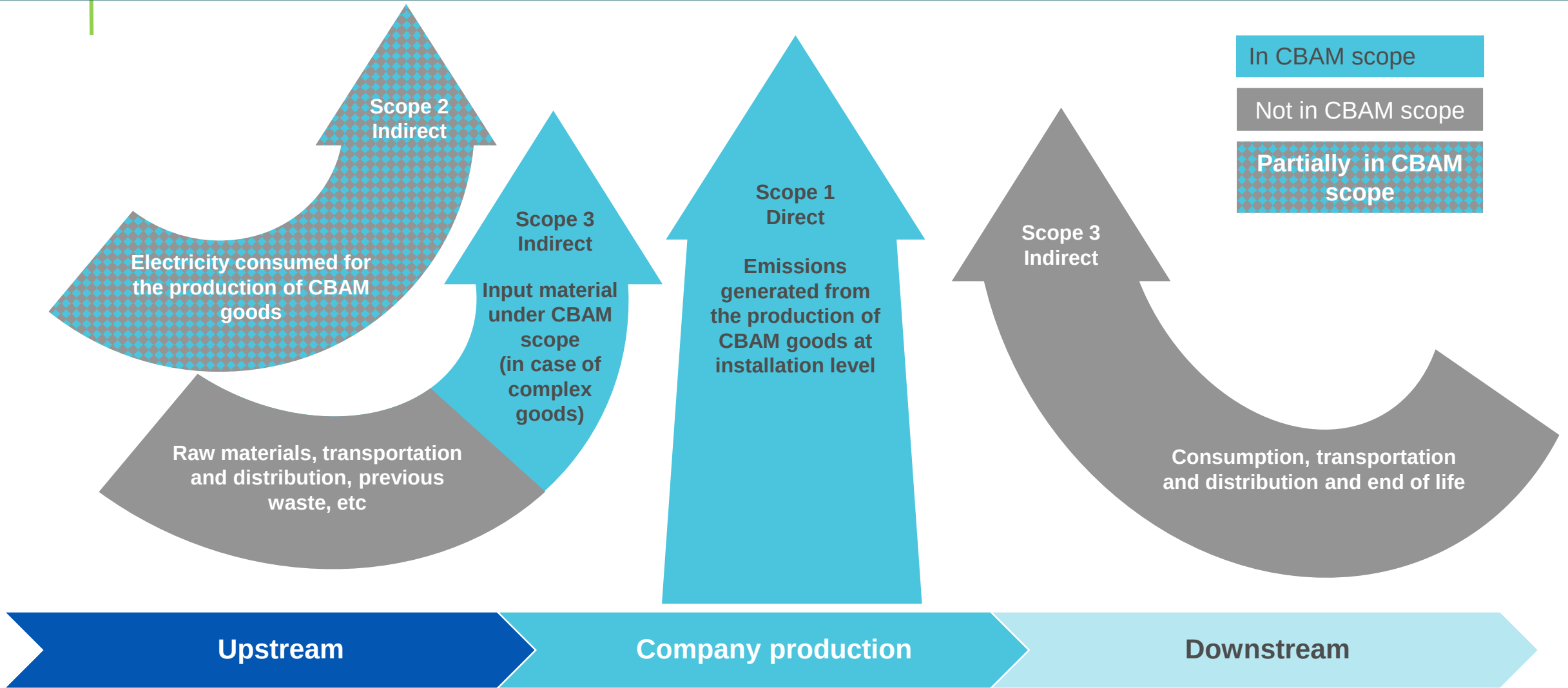
2026	2027	2028	2029	2030	2031	2032	2033	2034
2.5 p.p.	2.5 p.p.	5 p.p.	12.5 p.p.	26 p.p.	12.5 p.p.	12.5 p.p.	12.5 p.p.	14 p.p.
2.5%	5%	10%	22.5%	48.5%	61%	73.5%	86%	100%



Example in 2028



Emissions under CBAM scope



Reporting emissions

- During the transitional phase shall be reported

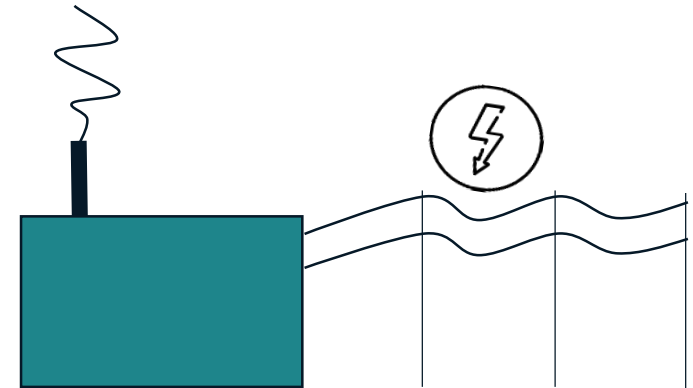
- ↳ *Direct and Indirect emissions for all CBAM goods included in Annex I of the Regulation*

- During the definitive phase shall be reported

- ↳ *Direct emissions for all CBAM goods included in Annex I of the regulation*

- ↳ *Indirect emissions, for all CBAM goods except those that may receive indirect cost compensation under the EU ETS framework (Annex IA)*

- The Commission will work towards the extension of the list of goods for which indirect emissions shall be reported



Obligation for a CBAM declarant

Transitional phase October 2023 - December 2025

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

→ Report to be submitted each quarter

Post transitional phase January 2026 onwards

- ❑ CBAM declaration containing the following:
 - Total quantity of goods imported during the preceding calendar year
 - Total embedded emissions in those goods
 - Emissions to be verified by EU accredited verifier
 - Total number of CBAM certificated to be surrendered
 - The carbon price effectively paid in the country of origin for the embedded emissions

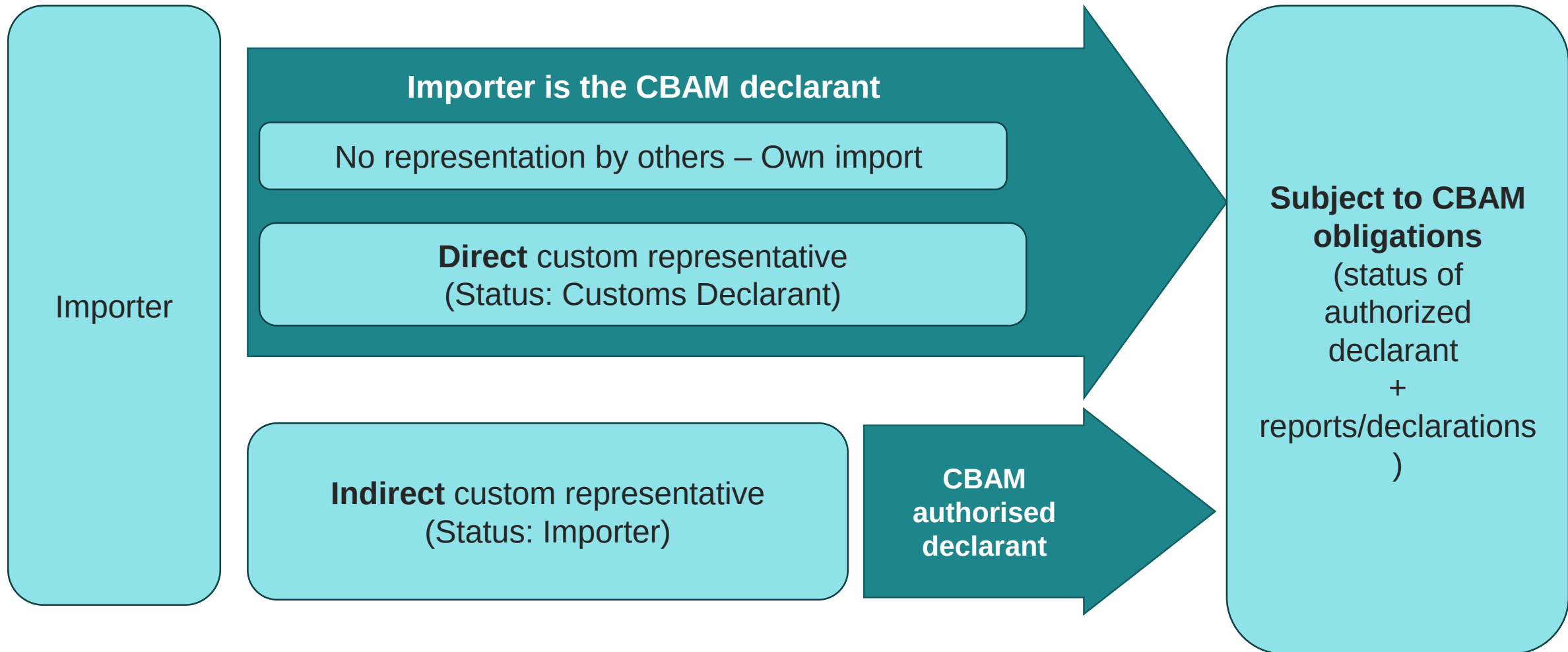
→ Declaration to be submitted each year

De Minimis Rule

- ❑ CBAM shall not apply to:
 - Goods imported in the customs territory which do not exceed EUR 150 per consignment as specified in Article 23 of Council Regulation (EC) No 1186/2009
 - Goods contained in the personal luggage of travelers coming from a third country and that do not exceed EUR 150



Rules for Representatives



2025 review

The Commission shall present 2 reports before the end of the transitional period:

1) Containing an assessment on:

- a) possibility to extend the scope
- b) criteria to be used to identify the goods to be included in Annex I of the CBAM regulation
- c) technical requirements for calculating embedded emissions for newly added goods
- d) progress made in international discussions regarding climate action
- e) governance system, including the administrative costs
- f) impact of CBAM on goods listed in Annex I imported from developing countries
- g) methodology for the calculation of indirect emissions

2) Identifying products that are further down the value chain of the goods listed in Annex I

Regular reports

1) Commission shall assess the impact of CBAM on:

- I. carbon leakage,
- II. sectors covered,
- III. the internal market,
- IV. Inflation
- V. effect on industries
- VI. international trade
- VII. least developed countries

Additionally, as part of the same report, it shall also assess:

- I. the governance system
- II. the scope
- III. circumvention practices
- IV. application of penalties and aggregated information on the emissions intensity per country of origin for the products listed in Annex I



Report to be submitted before 1 January 2028, as well as every two years thereafter

2) Commission shall assess CBAM effectiveness in addressing the carbon leakage risk for goods produced in the EU for export to third countries which do not apply the EU ETS or similar carbon pricing mechanism



Report to be submitted every two years from the end of the transitional period

List of Implementing and Delegated Acts

☐ Implementing Acts

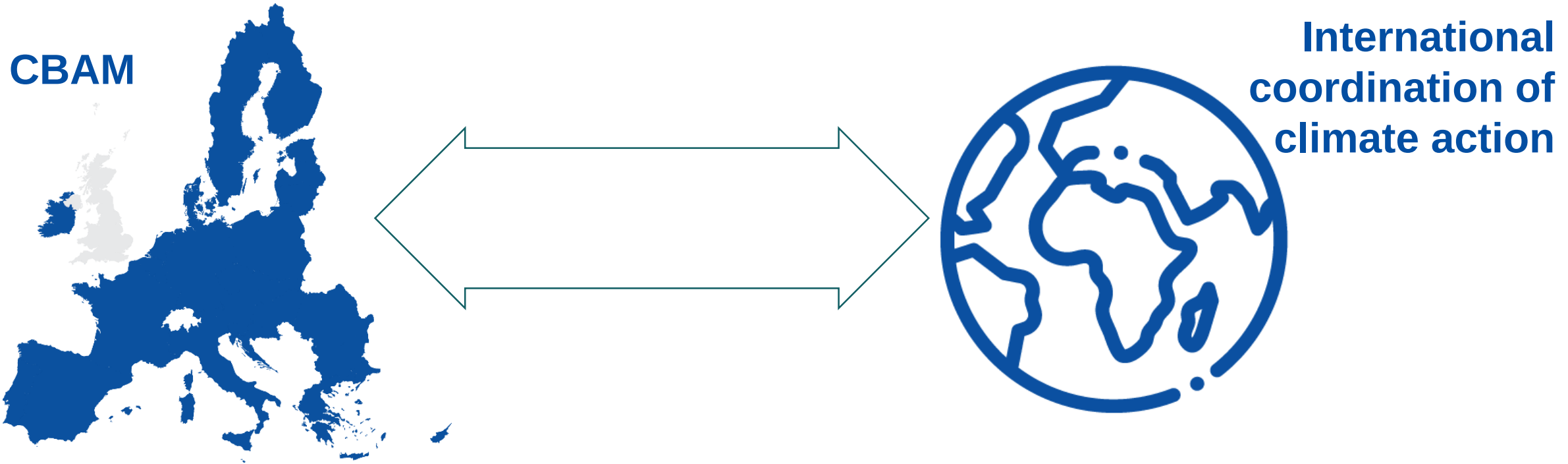
- ☐ Art. 2(2) – Scope
- ☐ Art. 5(6) – Application for authorisation
- ☐ Art. 6(6) – CBAM declaration
- ☐ Art. 7(6) – Calculation of embedded emissions
- ☐ Art. 8(3) – Verification of embedded emissions
- ☐ Art. 9(4) – Carbon price paid in a third country
- ☐ Art. 14(6) – CBAM registry
- ☐ Art. 17(11) – Authorisation
- ☐ Art. 18(1) – Accreditation of verifiers
- ☐ Art. 21(3) – Price of CBAM certificates
- ☐ Art. 25(5) – Rules applicable to the importation of goods
- ☐ Art. 31(2) – Free allocation of allowances under the EU ETS and obligation to surrender CBAM certificates
- ☐ Art. 35(6) – Reporting obligation

☐ Delegated Acts

- ☐ Art. 2(10 & 11) – Scope
- ☐ Art. 18(3) – Accreditation of verifiers
- ☐ Art. 20(3) – Sale of CBAM certificates
- ☐ Art. 27(6) – Circumvention

CBAM and global decarbonisation

CBAM is part of our international cooperation on climate actions

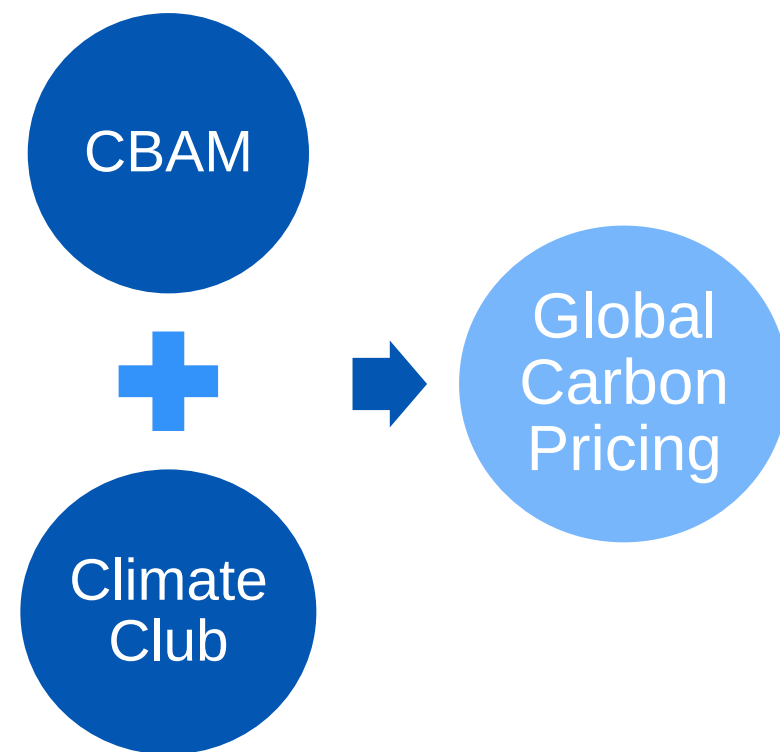


... climate action is urgent, so we need to act at all levels now

... starting with CBAM goes hand in hand with our engagement at international level

International cooperation

- ❑ CBAM can be complemented by bilateral, multilateral and international cooperation with third countries
 - ❑ Establishment of a dialogue between countries with carbon pricing instruments ('Climate Club')
 - ❑ Building on OECD's work under IFCMA
- paving the way for ambitious climate policies and global carbon pricing



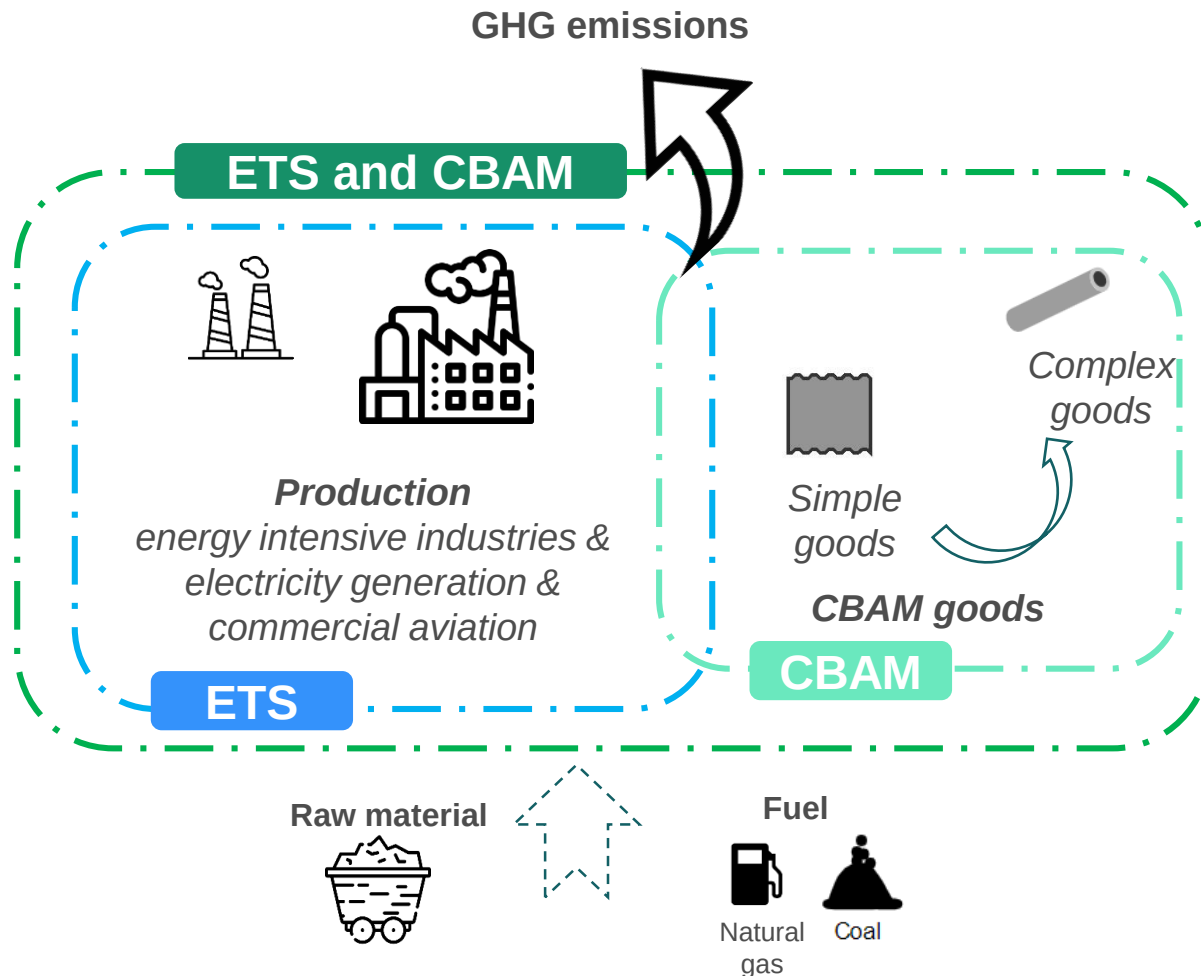
CBAM – an internationally open mechanism

- ❑ **CBAM is open to decarbonisation efforts in third countries and favours international coordination thanks to a five-tier system:**
 - **Actual emissions methodology – CBAM is based on carbon content of the imported goods.**
 - **Deduction of the carbon price paid in country of production from the adjustment on imported goods.**
 - **Countries applying EU ETS or linked to it are excluded.**
 - **Special rules on electricity for countries whose electricity market is “coupled” with the EU internal market for electricity**

Methodology to calculate CBAM obligations

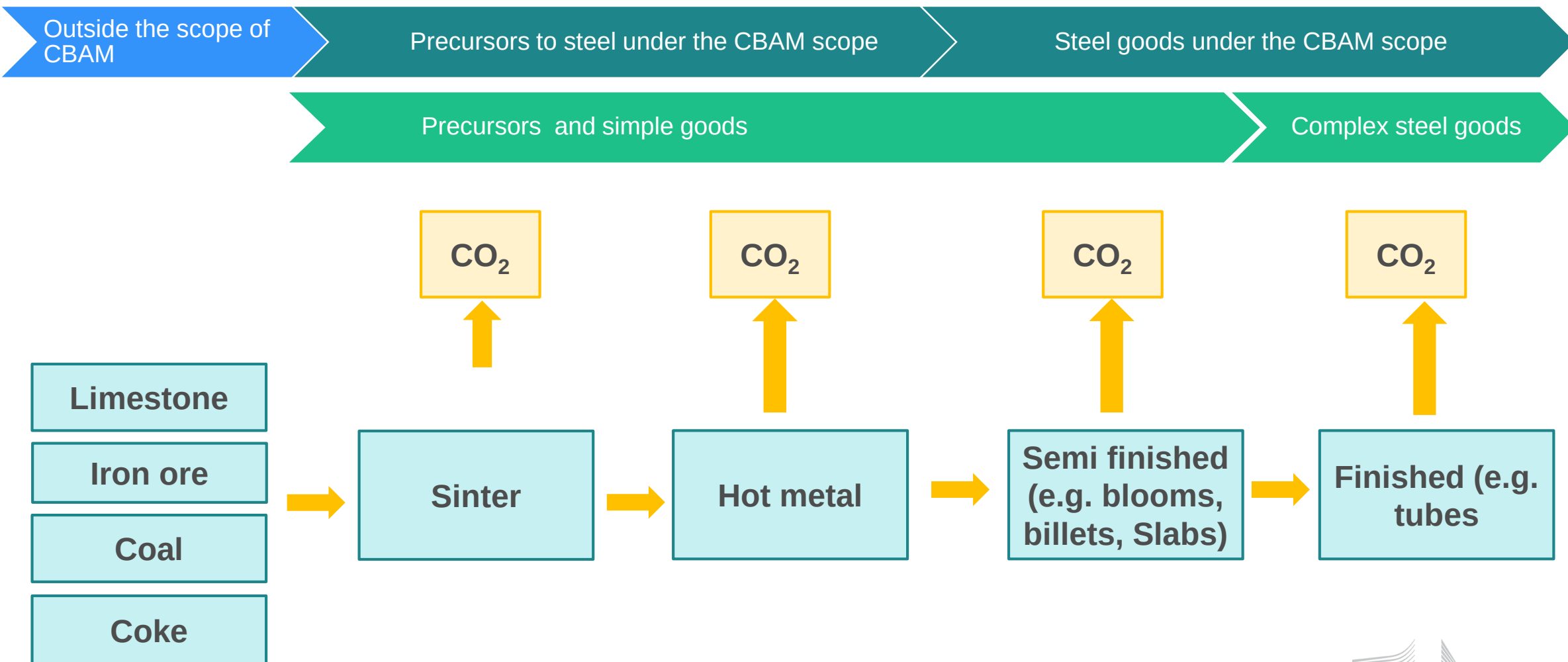
The CBAM methodology

From installation to goods approach



- The scope of the ETS is based on installations carrying out activities leading to GHG emissions.
- The scope of the CBAM is based on “goods”.
- Therefore the CBAM methodology will translate ETS methods for the calculation of emissions at installation level into methods for imported goods
- This means setting rules to narrow the system boundaries from production sites down to the level of goods
- But a key difference between CBAM and ETS is the distinction simple and complex goods

An example of simple and complex goods: iron and steel



Verifiers

Accreditation

- ☐ Any person accredited in accordance with Commission Implementing Regulation (EU) 2018/2067 for a relevant group of activities shall be regarded as an accredited verifier under the CBAM regulation.
- ☐ A national accreditation body may on request accredit a person as a verifier

Role

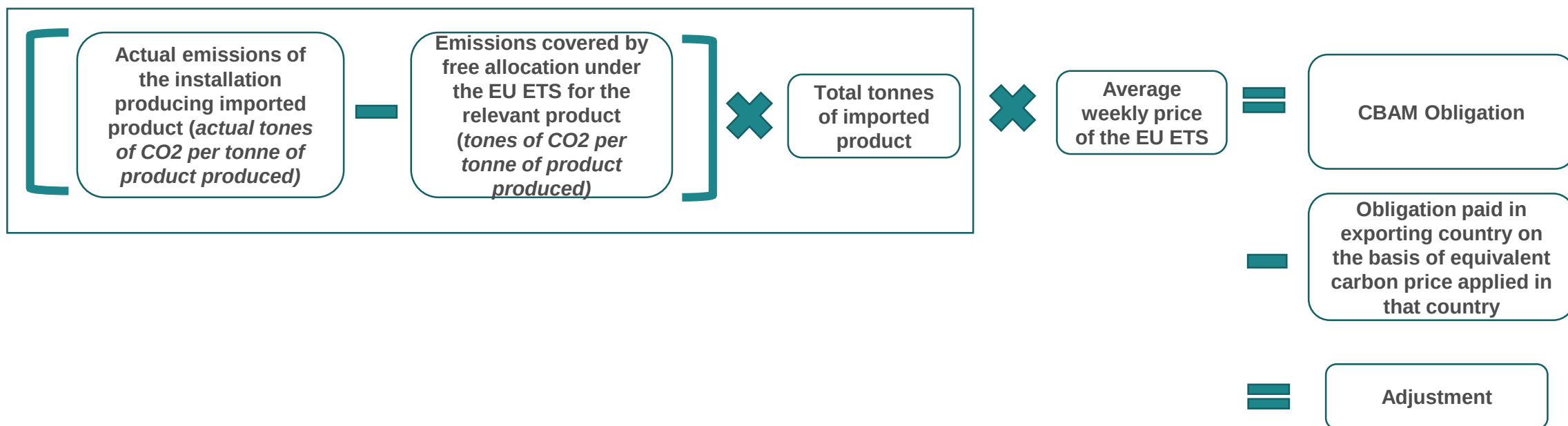
- ☐ The verifiers shall:
 - ☐ prepare a verification report establishing the embedded emissions of CBAM goods
 - ☐ visit installations on-site

Calculation of the adjustment

Number of certificates

Price of certificates

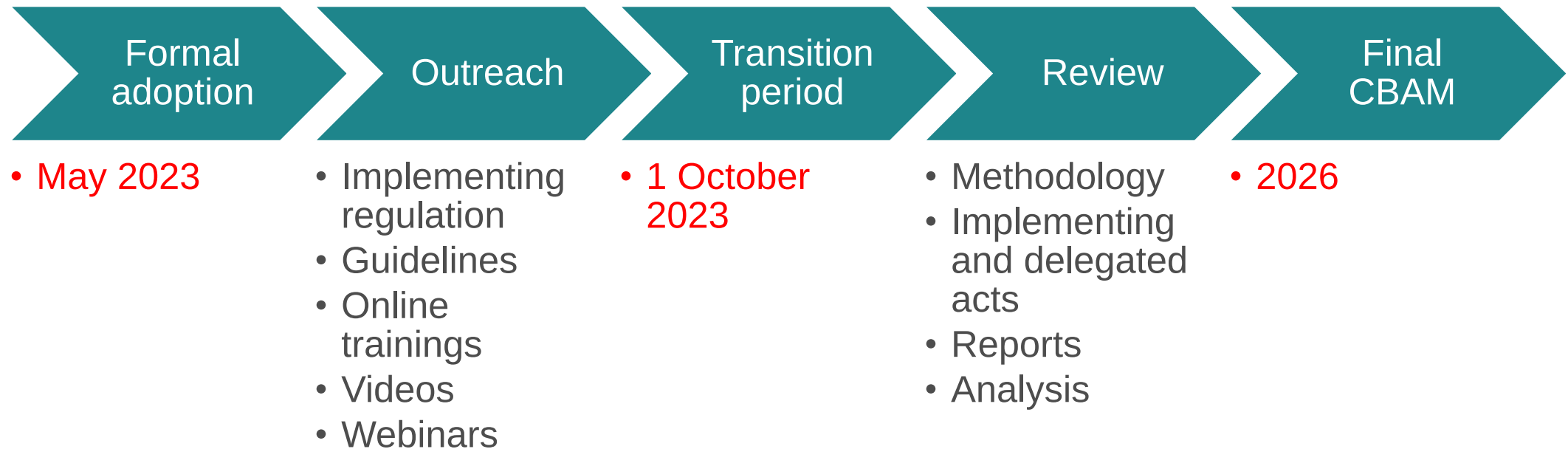
Obligation and adjustment



Default values

- When actual emissions cannot be adequately determined, embedded emissions shall be determined by reference to default values expressed in tonnes of CO₂eq per tonne of CBAM good produced.
- Default values shall be based on the average emission intensity of each exporting country for each good under the scope of the proposed CBAM regulation, except electricity. Subject to data restrictions groupings may be applied
- Based on a top-down methodology (i.e. using the publicly available data) replicating as much as possible the ETS approach
- Indicative datasets to be used: IPCC, OECD, IEA, international industry associations (e.g. world steel and international aluminium institute)

Next steps



Thank you

© European Union 2020

Unless otherwise noted the reuse of this presentation is authorised under the [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license. For any use or reproduction of elements that are not owned by the EU, permission may need to be sought directly from the respective right holders.