

EU Carbon Border Adjustment Mechanism (CBAM) For Climate's Sake

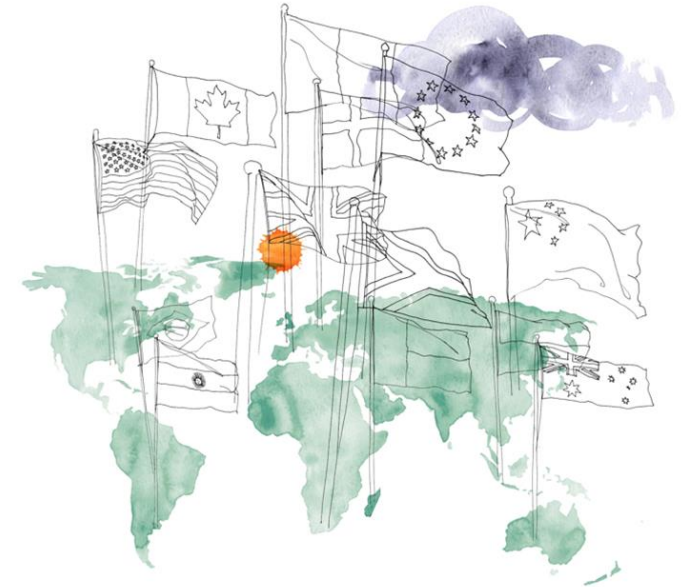
What is it about? Why is it introduced?

Session III Carbon Trading: Economic Mechanisms and Market Dynamics
Joint Indonesia-Sweden-ADB-CFMCA Workshop
Jakarta, Indonesia
3 October 2023



Need for Global Climate Action

- Climate change is a global problem
 - 194 countries signed the Paris Climate Agreement
 - 133 countries have this far adopted climate goals of zero emissions
 - Alarming IPCC report
- Different instruments currently in force
 - Carbon pricing (carbon tax, emissions trading schemes, phasing out fossil fuel subsidies)
 - National governmental grants
 - Regulatory measures/bans
 - Loans from World Bank, ADB and others
 - Climate financing by businesses and Governments in developed countries



EU Climate Policy

Brief scene setter



EU Aims at Climate Neutrality

How to do it?

- **EU Emissions Trading Scheme (ETS)**
 - Introduced in 2005 and developed stepwise over the years
 - Cornerstone of the EU's policy to combat climate change – approx. 40% of EU GHG emissions
 - Covers large industrial and electricity plants
 - Carbon leakage addressed via free allocation of emission allowances
- **Sectors outside EU ETS**
 - Buildings, transport, small industries, agriculture – approx. 60% of EU GHG emissions
 - Member States national measures
 - 8 Member States (e.g. Sweden) have national carbon taxes
- **EU climate goals, decided in 2019**
 - Political ambition is a legal obligation for the EU (EU Climate Law)
 - First climate-neutral continent in 2050
 - Reduce carbon emissions by 55% in 2030
- **EU Fit for 55 Package**
 - Proposals presented in 2019, decided in 2023, e.g.
 - Review of the EU ETS – tightened, extended to other sectors
 - Free allocation in EU ETS is phased out
 - Prevent carbon leakage to ensure effectiveness of EU climate policy = CBAM is introduced
- **CBAM is an essential part of EU Climate Policy**



Why is There a Need for CBAM?

- Global climate challenge requires urgent action
 - Time for action is now!
- EU raises its climate ambition
 - Fit for 55 Package
 - Concerns about increased risks of carbon leakage
- Differences in climate ambition among EU's trading partners
- CBAM prevents carbon leakage to ensure effectiveness of EU climate policy on the EU market
- Third countries have a sovereign right of policy making, but CBAM can incentivize
 - 3rd country producers to reduce emissions
 - 3rd countries to adopt green policy frameworks
- CBAM is not a tax, not a customs duty
 - CBAM is an internal EU Regulation on the EU market



CBAM or International Coordination?

- CBAM has a strict climate objective
- CBAM favours decarbonisation efforts in third countries
 - Deduction of explicit carbon price paid in 3rd countries from CBAM obligation
 - Actual emissions methodology
 - Countries linked to EU ETS will be excluded
- CBAM does not preclude continued joint work on international coordination of carbon pricing



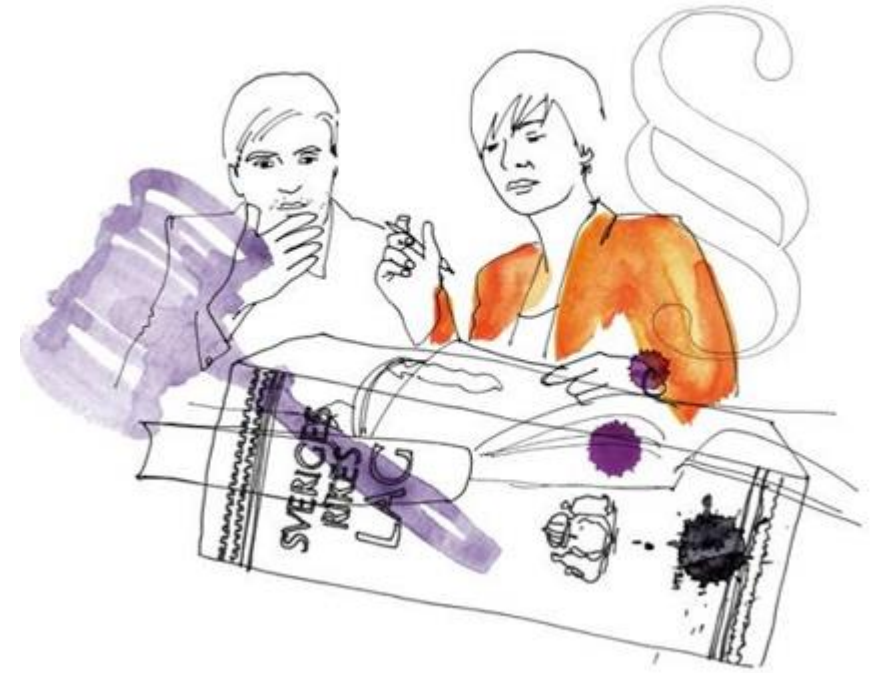
CBAM

EU legal framework



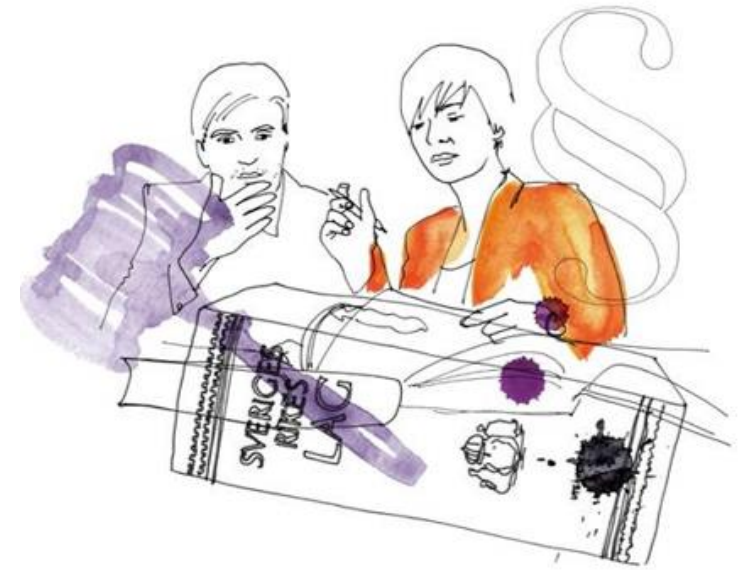
When Will We Know All the Details? I

- **CBAM Regulation** – major framework
 - December 2022 Political agreement between EU co-legislators (<https://data.consilium.europa.eu/doc/document/ST-16060-2022-INIT/en/pdf>)
 - Spring 2023 Formal adoption by EU co-legislators
 - 16 May Publication in OJ L 130/52 [Publications Office \(europa.eu\)](https://eur-lex.europa.eu/eli/oj/2023/L_130_52/20230516)
 - 1 October 2023: Transitional period started - reporting
 - 1 January 2026 : Definitive period starts – financial obligation; EU imports only by authorized CBAM declarants



When Will We Know All the Details? II

- **Secondary legislation** – supplementary framework
 - Adopted by EU Commission, prepared by CBAM Committee (Member States Representatives) and stakeholder views
 - 12 *implementing acts*, to ensure detailed uniform application
 - 16 August 2023 Methods for reporting during transitional period; [Carbon Border Adjustment Mechanism \(europa.eu\)](#);
 - 11 others (sufficiently prior to 1 January 2026)
 - 4 *delegated acts* – reflect certain developments
 - E.g. circumvention, adding countries to list of countries excluded from CBAM fulfilling certain criteria, such as linking to EU ETS
 - *On-line information* from EU Commission
 - 10 min introduction to general features [Kurs: Carbon Border Adjustment Mechanism \(CBAM\) - Introduction \(10 min\), Topic: en \(europa.eu\)](#)
 - Specific in-depth information and specifics for each sector (15 September – 5 October 2023; also available recorded [Carbon Border Adjustment Mechanism \(europa.eu\)](#))



CBAM

A closer look at the design



CBAM Design

Key Elements

- Addressed to importers, not countries
 - Based on actual verified carbon emissions embedded in imported goods
 - Focus on goods in carbon intensive sectors
- A Regulation mirroring EU ETS carbon pricing to the extent possible
 - Obligations on EU importers, not 3rd country producers
 - Not a tax; not a customs duty
- Climate objective
- Compliant with WTO and in line with international trade rules



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Goods in CBAM Scope

General Basics

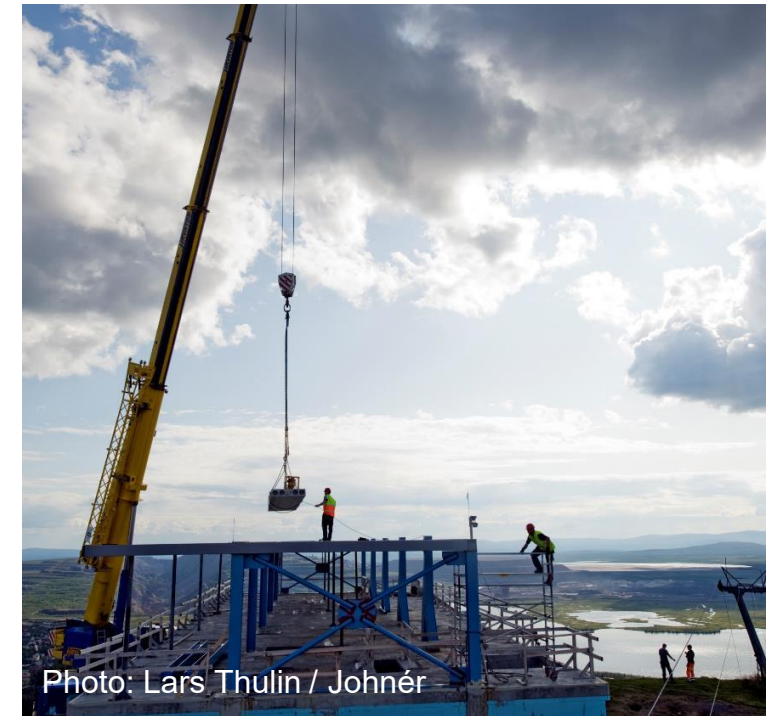
- Selected on basis of three criteria
 - High risk of carbon leakage (high carbon emissions; high level of trade)
 - Covering major part of carbon emissions under EU ETS
 - Practical feasibility to calculate embedded emissions in goods
- First phase
 - Goods within limited number of sectors
 - Goods defined by CN codes
- Further stages, following reviews in 2024 and onwards
 - For example, extending to
 - other sectors under EU ETS?
 - indirect emissions?
 - products further down the value chain?



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Goods in CBAM Scope Specific

- Goods in the following sectors:
 - Iron & Steel, incl. some precursors
 - Aluminium
 - Cement
 - Fertilisers
 - Electricity
 - Hydrogen
- Direct and indirect emissions:
 - Transitional period 2023-2025, reporting on actual direct as well as indirect emissions
 - Definitive period from 2026, declaring basically only actual verified direct emissions



Carbon Price

From 1 January 2026

- Equal carbon pricing
 - EU companies pay a carbon price via EU ETS on goods produced in the EU
 - Importers pay a carbon price, corresponding to the EU ETS price
 - The CBAM obligation only applies if EU ETS free allowances has been phased out
 - Gradual phase in of CBAM obligation
 - Mirroring the phase out of EU ETS free allowances
 - COM proposal: 2026-2035 Linear 10% annual phase in
 - Final agreement: 2026-2034, but slower pace from start
- No double pricing
 - An explicit carbon price paid in a 3rd country for the embedded emissions in imported goods will be deducted from the CBAM obligation



Carbon Price Paid in 3rd Country

How is it determined?

- Explicit carbon price (*Art. 3 (23) of CBAM Regulation*)
 - *'monetary amount paid in a third country, under a carbon emissions reduction scheme, either in the form of a tax, levy, fee or emission allowances under a greenhouse gas emissions trading system, calculated on greenhouse gases covered by such a measure, and released during the production of goods'*
- In line with WTO rules, mirrors EU carbon pricing



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CBAM

CBAM obligations on EU importers from 1 October 2023 vs from 1 January 2026



What Happens During the Transitional Period?

(1 October 2023 – 31 December 2025)

- The Customs Declarant (importer or indirect customs representative) reports embedded direct and indirect emissions
 - CBAM goods imported to the EU from 1 October 2023
 - Report by each quarter; first report by 31 January 2024
 - No verification of emissions
 - *'Effective, proportionate and dissuasive'* penalty by national CBAM Authority on customs declarant if not complying
 - Methodology for reporting in implementing act
 - Reports submitted to EU Commission
 - To gather data for forthcoming implementing acts for definitive period
 - 'Learning by doing' period for business



Obligations on Importers in Definitive Period I (from 1 January 2026)

- Goods can only be imported to the EU by an authorised CBAM declarant
 - Importer established in an EU Member State or indirect customs representative established in the EU
 - Authorisation by the CBAM Authority in the EU Member State of establishment, demonstrating financial and operational capacity
- Yearly declaration of CBAM imports during previous calendar year
 - By 31 May 2027 submit CBAM declaration for imports during 2026
 - Specifying embedded emissions according to laid down methodology,
 - Ensuring that declared emissions are verified by an accredited verifier and include relevant verification reports
 - Calculating CBAM certificates to be surrendered
 - By 31 May surrender CBAM certificates covering declared emissions
 - Reviews of declarations by EU Commission and CBAM Authorities; non-compliance results in penalties



Photo: Thyra Brandt / Folio

Obligations on Importers in Definitive Period II

(from 1 January 2026)

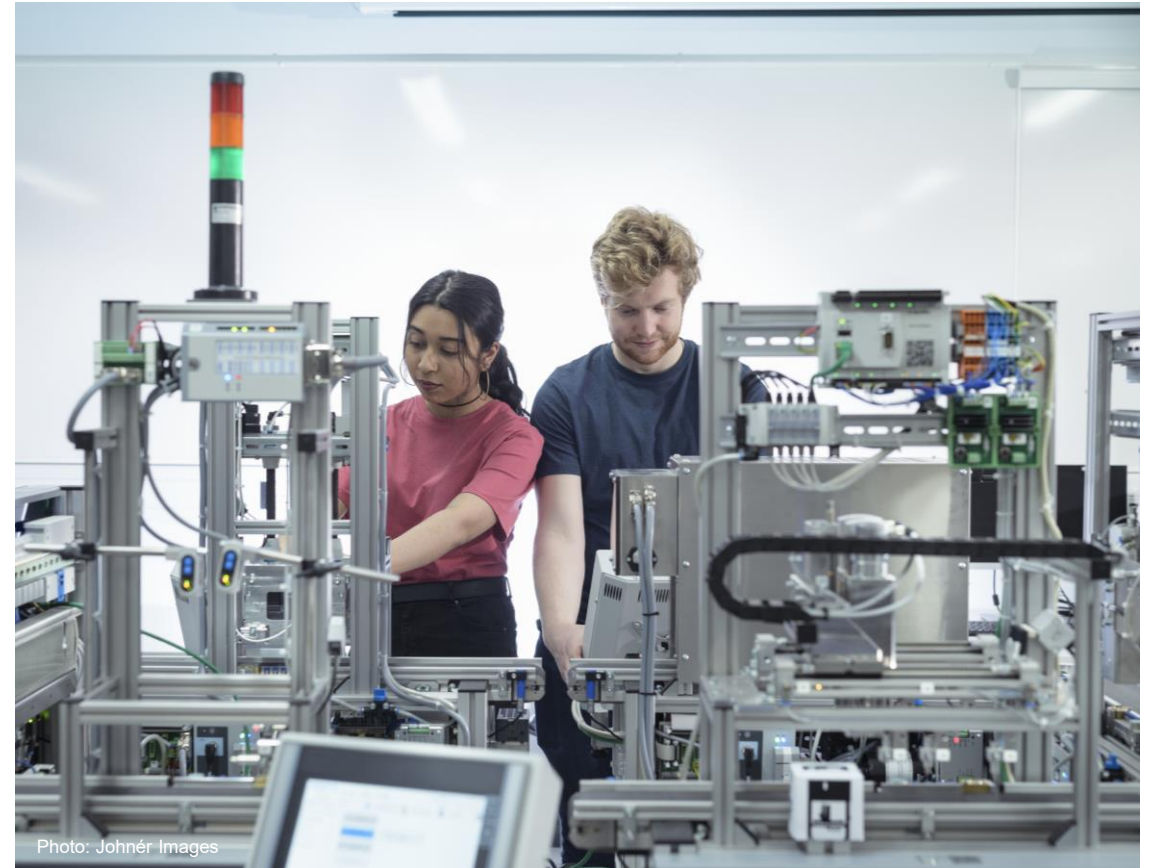
- Purchase of CBAM certificates
 - 1 CBAM certificate equals 1 ton of embedded emissions in goods
 - Authorised CBAM declarants buy at common EU auction platform
 - Price = average weekly price of EU ETS allowances
 - No trading allowed between authorised CBAM declarants
 - An authorised CBAM declarant must ensure CBAM certificates for 80% of embedded emissions in his account by end of each quarter
 - Non-compliance may lead to revoked status as authorised CBAM declarant
- Ensure that an accredited verifier will verify the embedded emissions
 - Use person accredited as EU ETS verifier, or
 - A person may seek authorisation by an EU Accreditation Body as an CBAM verifier.



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Role of a 3rd Country Producers

- All legal CBAM obligations on the EU importer, not on 3rd country producer, but
 - The EU importer is obliged to give detailed info on embedded emissions in the imported goods
 - Access to data from the 3rd country producers needed for imports from 1 October 2023; from 1 January 2026 these data needs to be verified by an accredited verifier.



CBAM

What is happening globally?



Global Discussions

- EU CBAM currently only fully operational Border Carbon Adjustment Mechanism (BCA)
- Discussions in other jurisdictions, such as Canada and the UK, of introducing BCA's
- Progress in global discussions on climate action?
- What will the effects be on developing countries and global trade flows?
- WTO concerns?
- Export leakage?
- Major reviews of EU CBAM by EU COM, starting in 2024



CBAM – Questions?

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