

EU Carbon Border Adjustment Mechanism





What is CBAM?

The EU's Carbon Border Adjustment Mechanism (**CBAM**) sits alongside other sustainability measures (such as the Corporate Sustainability Reporting Directive guidelines) as key pieces of the EU's globally-focussed sustainability regulation. CBAM will pose significant challenges for certain hard-to-abate sectors that grapple with higher embedded emissions.

In principle, CBAM will apply the same price per ton of embedded carbon emissions for an imported 'CBAM product' as what applies under the domestic EU Emissions Trading System (**EU ETS**) at that time.

Who will CBAM apply to?

CBAM will broadly apply to operators who import the following products into the EU Customs Union:

	Aluminium
	Iron & steel
	Mineral products
	Electricity
	Fertilisers
	Inorganic chemicals
H2	Hydrogen

Importantly, whether CBAM applies or not will largely be dependent on the CN code used when the good is declared into free circulation of the EU Customs Union. Businesses therefore should have a clear understanding of their supply chain, environmental footprint, customs and trade processes to adequately assess whether CBAM may be applicable.

How does CBAM work?

CBAM will be a levy calculated by reference to the greenhouse gas emissions embedded in certain products when they are imported into the EU Customs Union.

In general, the import levy will be based on the actual emissions embedded in the imported goods. When actual emissions cannot be adequately determined, the embedded emissions may also be determined by reference to default values (which are expected to be conservatively higher). Under CBAM, similar to the EU ETS system, one certificate per tonne of CO₂ emitted ('a CBAM certificate') during the production of the goods in scope has to be surrendered.

The price of CBAM certificates will be calculated as the average of the closing prices of all auctions of EU ETS allowances conducted in auctioning platforms during each calendar week (currently this would be circa EUR 100 per certificate).

CBAM certificates will not be able to be traded through a system of auctions, nor will CBAM establish quantitative limits to import, so as to ensure that trade flows are not restricted. Moreover, CBAM should be applied to goods imported into the customs territory of the Union.

When CBAM enters into force as a reportable mechanism, the 'CBAM declarant' will be required to report on the embedded emissions contained in the imported products. The CBAM declarant can be the same party as the 'customs' importer, or can be acting on behalf of the importer for CBAM purposes. A significant amount of supply chain and environmental footprint data may need to be collected and shared with the CBAM declarant to be able to meet their requirements under CBAM.

From when does CBAM apply?

The CBAM regulation received approval from the EU Council in April 2023. Therefore, the CBAM reporting requirements should commence from **1 October 2023**, with the purchase of CBAM certificates (and therefore payments) commencing from **1 January 2026**.

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Who is liable under CBAM?

Importantly, the legal liability for the reporting and payment of CBAM is with the 'authorised CBAM declarant'. However, the reporting of this information will be heavily reliant on the authorised CBAM declarant receiving accurate (and verifiable) information from their suppliers. As such, we expect CBAM to have a wide ranging impact throughout the supply chain (and not just for businesses which directly import into the EU Customs Union).

How can PwC help?

PwC offers a range of experience and knowledge to help you understand the potential impacts of CBAM.

In practical terms, our CBAM experts (which include members of our EU Green Deal Center of Excellence) have detailed knowledge of the EU Green Deal and the Fit for 55 package. This allows them, with the support of your local PwC contact, to:

- **Track relevant developments** to keep you informed of the latest developments and policy movements;
- **Consider your existing customs and trade flows**, so that the applicability of CBAM can be assessed based on your current and future operations;
- **Forecast and estimate** the potential financial impact CBAM may have; and
- Use our knowledge of the broader EU Green regulatory environment to **advise you on next steps and how your business can respond**.

We can also work with our colleagues across multiple disciplines to guide your business through measures in response to CBAM, such as formulating decarbonization and Net Zero pathways, or reviewing your supply chain to be more sustainable.

Key contacts

Please contact your local PwC for further support, or alternatively, please contact one of our specialists:



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CBAM - different angles

Due to the nature of the CBAM mechanics, the calculation of CBAM will be heavily dependent on accessing quality emissions data and having a thorough understanding of your customs processes. In addition, you will be required to calculate the embedded emissions within your imported products (which may come from your supply chain and sources outside your immediate control). Therefore there is also a strong connection to broader supply chain considerations.

Key takeaways

1

Affected industries can take several 'no regret' actions now to prepare for CBAM. These actions focus on quantifying the expected impact of CBAM based on your existing supply chain.

2

Join us for our upcoming CBAM Web Series:

Event 1 - Introduction to CBAM

Monday - 15 May 2023

0800 - 0900 CEST - [Register here](#)

Tuesday - 16 May 2023

1700 - 1800 CEST - [Register here](#)

These webcasts will focus on explaining the rules, identifying what you need to be aware of and some 'no regret' actions you can take.

3

Similar to other recent EU developments (such as Pillar II or the Corporate Sustainability Reporting Directive (**CSRD**)), impacted companies have some time to respond to the changing landscape. We recommend you consider how CBAM could impact your business today so that you have greater lead time in making changes to your supply chain.