

Summary of the EU CBAM Regulation: What this could mean for your business



Regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism (CBAM)¹

CBAM reporting obligations commence from 1 October 2023, meaning it is urgent for importers to the EU, and EU companies producing or importing goods with high embedded emissions, to prepare for these developments.

It is critical for companies and importers of CBAM goods in the EU to remain well-informed of these developments and begin evaluating the overall impact on their business activity, which may not be limited to a view on their customs data only, but also impact their sourcing and supply chain.

Summary of the CBAM Regulation

A Regulation that establishes a Carbon Border Adjustment Mechanism for regulating greenhouse gas emissions embedded in **certain goods, upon their importation into the customs territory of the European Union (EU), with the purpose of preventing the risk of carbon leakage**.

Covered goods

Applies to goods listed in Annex I, originating in countries and territories outside of the customs territory of the EU, with the exception of countries and territories listed in Annex II.

Article 2

Although the scope won't change before 2026, it is intended that the scope of the covered goods includes all sectors covered by the EU Emissions Trading System (ETS) by 2030.

Annex I goods (identified by CN code)



Indirect emissions under certain conditions, certain precursors as well as some downstream products (e.g. screws and bolts) are also included.

Annex II exception countries and territories

Iceland	Liechtenstein
Norway	Switzerland
+ five other minor territories	

+ five other minor territories

- Büsingen
- Heligoland
- Livigno
- Ceuta
- Melilla

¹ Source: 2021/0214 (COD), Regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism (CBAM) — Compromise text 16060/22, 14 December 2022

Process

Importation of goods shall only be made by a declarant that is authorized by the competent authority (authorized declarant). **Article 4**

'Importation' is defined as meaning the release for free circulation. **Article 3**

The customs authorities shall not allow the importation of goods unless the declarant is authorized by a competent authority at the latest at the release for free circulation of the goods. **Article 25**

Authorized declarant shall, by 31 May each year, submit a CBAM declaration to the competent authority containing the total emissions embedded in imported covered goods during the previous calendar year, and the corresponding total number of CBAM certificates to be surrendered. **Article 6**

Calculating embedded emissions

Annex III sets out the approach for calculating the specific actual direct, and, where applicable, indirect embedded emissions of goods other than electricity. Embedded emissions in imported electricity shall be determined by reference to default values in accordance with the method set out in **Annex III**.

Where actual emissions cannot be adequately determined, the number of CBAM certificates to be surrendered shall be determined using default values, based on the average emission intensity of each exporting country and for the goods listed in Annex I (excluding electricity), increased by a proportionately designed mark-up to be determined in the implementing acts of the regulation. **Article 7(2)**

When reliable data for the exporting country cannot be applied, these default values will be based on the average emission intensity of a percentage (to be determined in the implementing acts) of the worst performing Emissions Trading System (EU ETS) installations for that type of goods. **Annex III, 4.1**

Verification

Declared embedded emissions must be verified by an independent, accredited verifier. **Articles 8(1) & 18(1)**

Pricing

CBAM certificates shall be sold on a common central platform that shall be established by the European Commission. **Article 20**

The European Commission shall calculate the price of CBAM certificates as the average of the closing prices of EU ETS allowances on the common auction platform for each calendar week. **Article 21**

The CBAM certificates to be surrendered shall be adjusted to reflect the extent to which EU ETS allowances are allocated free of charge to installations producing, within the EU, goods listed in Annex I. **Article 31(1)**

Carbon price paid in a country of origin

Declarants may claim a reduction in the number of CBAM certificates to be surrendered in order for the carbon price effectively paid in the country of origin for the declared embedded emissions to be taken into account. **Article 9(1)**

Countries may be listed in Annex II for exemption where the price paid in the country of origin is effectively charged on those goods, without any rebate, beyond those also applied in the EU ETS. **Article 2(5)(b)**

Transitional provisions and timing

During the transitional period from 1 October 2023 until 31 December 2025, the obligations of the importer shall be limited to reporting obligations. **Article 32**

Each importer having imported goods during a given quarter of a calendar year must, for that quarter, submit a CBAM report containing information on those goods imported, including the actual total embedded emissions of each type of goods. **Article 35**

The first quarterly report is due by 31 January 2024.

CBAM financial obligations take effect from 1 January 2026, whereby importers will have to register as authorised declarants and start purchasing CBAM certificates. The first annual declaration is due by 31 May 2027.

To ensure uniform conditions for the implementation of this Regulation, various implementing acts will be put in place in the forthcoming years.

How KPMG can help

The EU CBAM is associated with significant increases in ambition within the EU ETS, with implications for the future carbon price pathway and the amount of free permits received by European producers: it is important to understand the impact of these measures together for the particular industry you are in.

Whether based within the EU or trading with the EU, we encourage companies to consider their own decarbonization strategies, whether it be to ensure that they are prepared for compliance with upcoming legislation, or to ensure that operations are future-proofed against medium- and long-term global developments.

KPMG has developed a leading global Climate Change and Decarbonization practice. Working alongside KPMG's Global Trade and Customs practice and ESG Sustainability and Tax and Legal teams, we can deliver leading approaches as we work collaboratively with clients on the journey to a low-carbon future.

KPMG ESG professionals can assist you with a climate risk and decarbonization strategy that includes helping you gain strategic foresight and operational value in your decarbonization journey, from emissions measurement to implementation, monitoring and reporting. This is supported by an array of options, such as renewable energy procurement, energy efficiency, circular economy and supply chain management, and includes assessing and understanding the underlying tax and legal impacts.

Through our Climate Risk Advisory services, we can help you measure, quantify and assess risks and opportunities across supply chains under a wide range of scenarios and understand the impact on business performance.

We also advise clients on the financing and investment aspects of the low-carbon agenda, including fundraising and identifying investment partners and merger and acquisition opportunities, which consist of both debt and equity approaches.

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Contacts

Barbara Bell

Director, Environmental Taxation
KPMG in the UK
E: barbara.bell@kpmg.co.uk

Merijn Betjes

Global Environmental Tax Expert
and Director
KPMG in the Netherlands
E: betjes.merijn@kpmg.com

Nicole de Jager

Senior Tax Manager — Global ESG Tax
(EU Green Deal & Decarbonization)
KPMG International
E: deJager.nicole@kpmg.com

Ruth Guerra

Partner, KPMG Avocats — International
Trade and Green Taxation, and Global
Climate Advisory Leader, KPMG Global
Decarbonization Center
KPMG in France
E: ruthguerra@kpmgavocats.fr

Mike Hayes

Global Head of Climate Change and
Decarbonization
KPMG International
E: mike.hayes@kpmg.ie

Loek Helderman

Global Tax Lead, KPMG ESG
KPMG International, and Partner
KPMG in the Netherlands
E: helderman.loek@kpmg.com

Richard Lin

Partner, Supply Chain
(GHG Emissions and Reduction)
KPMG China
E: richard.lin@kpmg.com

Chris Morgan

Global Leader for the KPMG
Responsible Tax Program
KPMG International
E: christopher.morgan@kpmg.co.uk

Carol Newham

Tax Partner, ESGT&L Partner Sponsor
KPMG in the UK
E: carol.newham@kpmg.co.uk

Warwick Ryan

Global Leader, Virtual Center
of Excellence (VCOE) for
Excise and Environmental Taxes
KPMG International
E: wryan@kpmg.com.au

Barry Sterland

Partner and National Lead Energy
Transition, Management Consulting
KPMG Australia
E: bsterland@kpmg.com.au

Gerd Krause

Partner, Risk & Compliance Services
KPMG in Germany
E: gkrause@kpmg.com