Implementation of the EU Carbon Border Adjustment Mechanism (CBAM)

Western Balkan Six Chamber Investment Forum

6 September 2023

Outline

1. **Carbon Border Adjustment Mechanism – main features**
2. The transitional period guidance for companies

European Commission

Carbon Border Adjustment Mechanism (CBAM) as part of the European Green Deal

The ‘fit for 55’ package aims to deliver the transformational change needed in a **cost-efficient** and **competitive** way while ensuring a **just and fair transition.**

Contribute to the European Green Deal objective of EU-wide climate neutrality by 2050

Ensure that the transition is fair and leaves no-one behind

Policy mix between pricing measures, targets, standards and support measures

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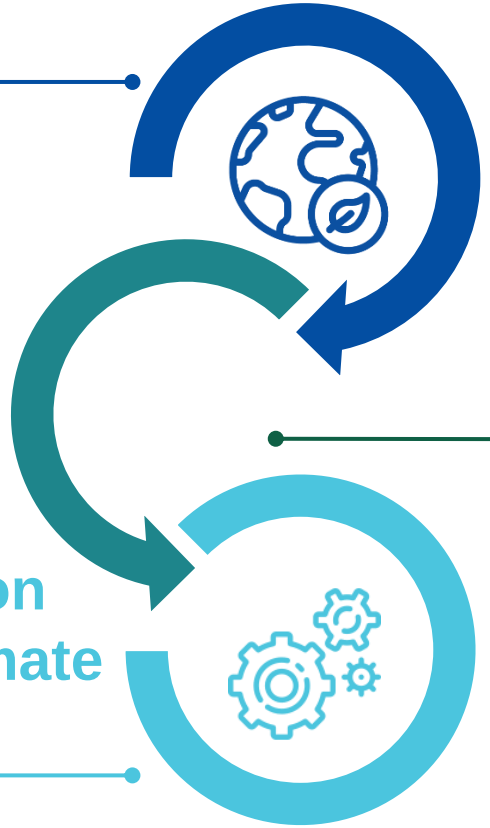
The aim of the CBAM

Prevent carbon leakage to ensure effectiveness of EU climate policy



Complements and reinforces the EU ETS

Contribute to decarbonisation globally and to reaching climate neutrality by 2050

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Key elements of design

Mirror EU **carbon pricing** through new mechanism for imports into EU

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

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

Focus on **carbon intensive sectors**

Takes into account **carbon price effectively paid by third country operator**

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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 (54% of free allowances in 2021)*
  - ✓ *Practical feasibility*

- In a **second stage**, may be extended to other ETS sectors

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Gradual implementation of CBAM

Transitional phase
October 2023 - December 2025

Post-Transitional phase
January 2026 onwards

2023 | 2024 | 2025 | 2026

Monitoring and reporting **Implementing rules** adopted by the CBAM Committee (EU Member States)

Review 2025

- Potential scope extension to other ETS sectors
- Indirect emissions
- Impact on Least Developed Countries
- Progress in international climate discussions

Start of **gradual phase-in of CBAM**/phase out of free ETS allowances

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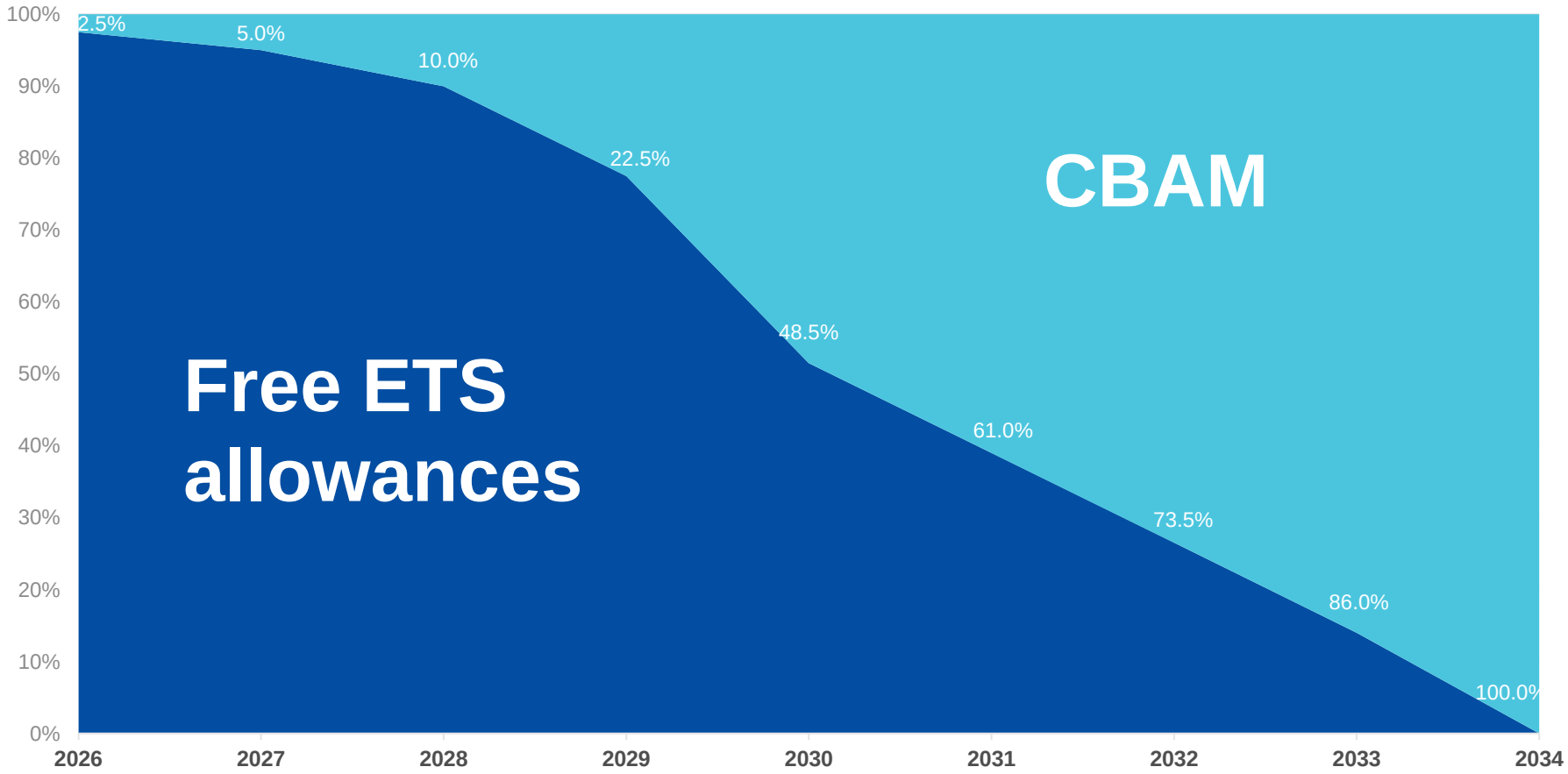
Phasing-out of free allocation / Phasing-in of CBAM



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Reporting obligations in each phase

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
- The carbon price due in the country of origin for the embedded emissions

Report to be submitted quarterly

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 certificates to be surrendered
- The carbon price effectively paid in the country of origin for the embedded emissions

Declaration to be submitted each year

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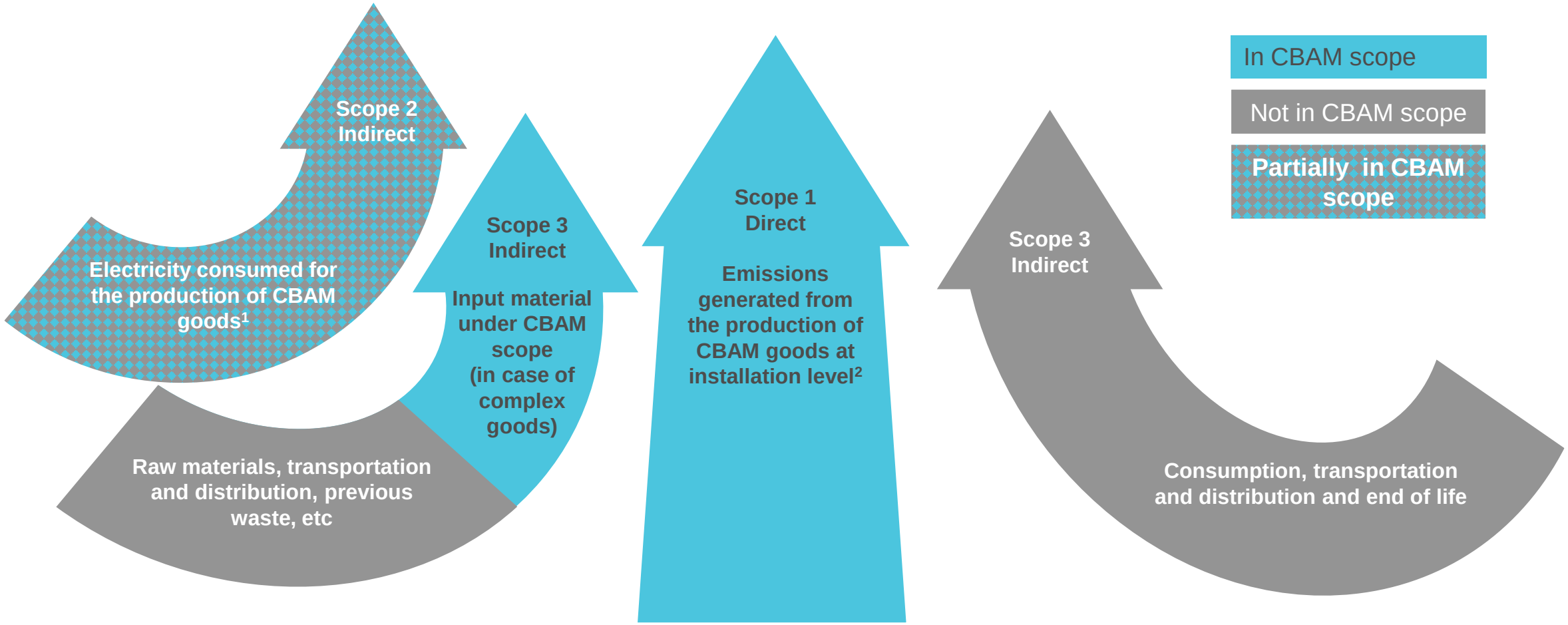
Emissions under CBAM scope



([1]) During the transitional CBAM period, indirect emissions need to be reported for all CBAM sectors.
([2]) Direct emissions include emissions from the production of heating and cooling, even if that production takes place outside the installation.

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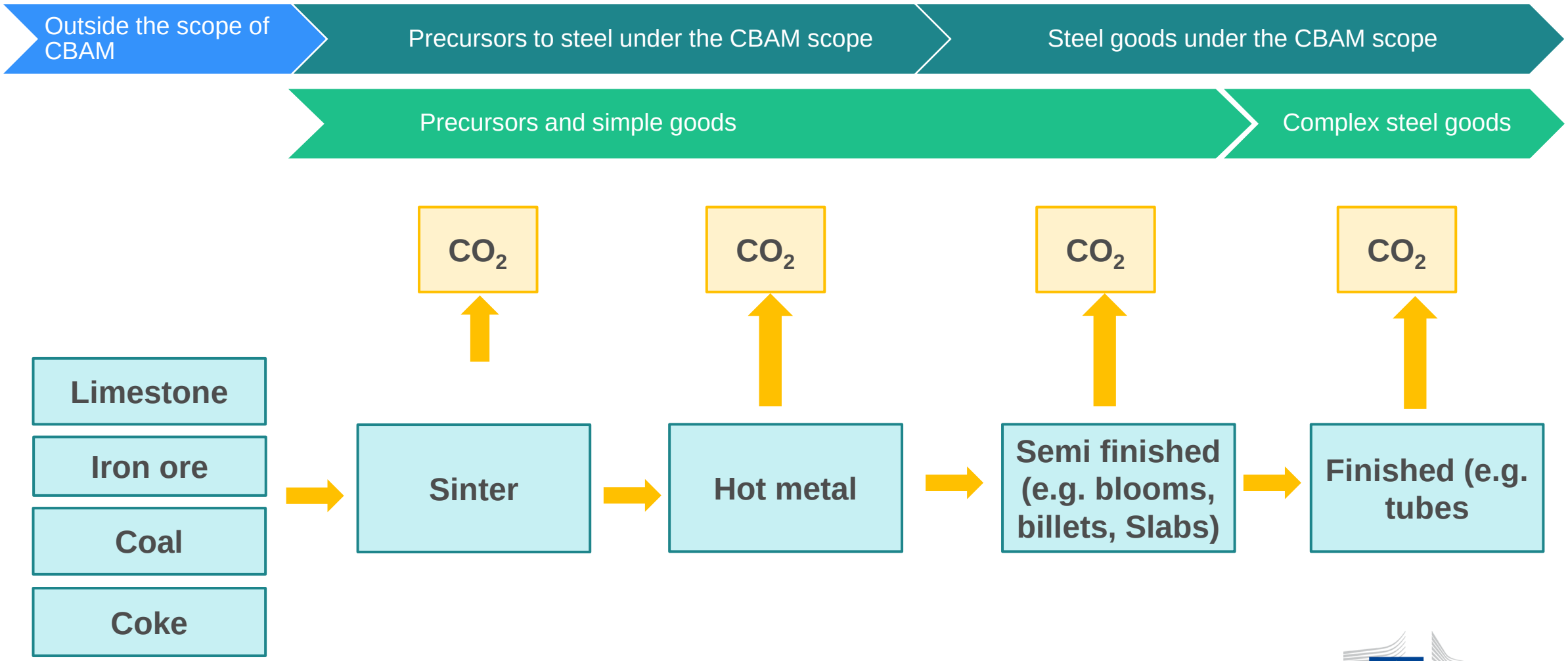
An example of simple and complex goods: iron and steel



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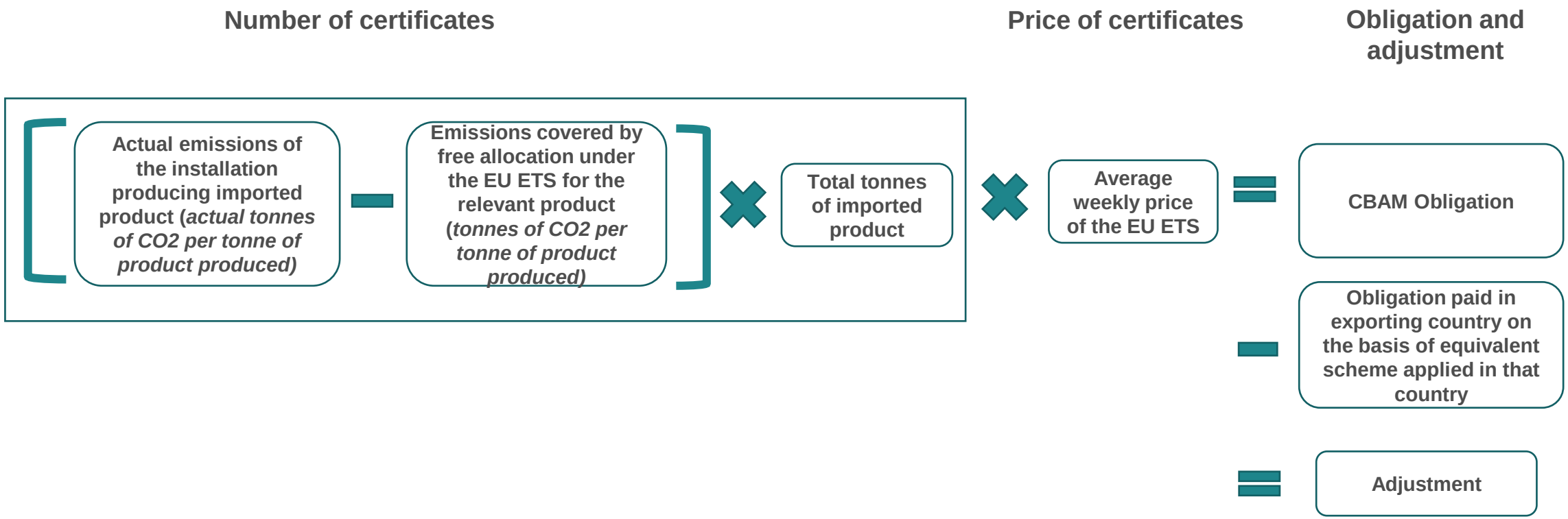
Calculation of the adjustment



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Outline

1. Carbon Border Adjustment Mechanism – main features
2. **The transitional period guidance for companies**

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Implementing Regulation
Principles of our approach

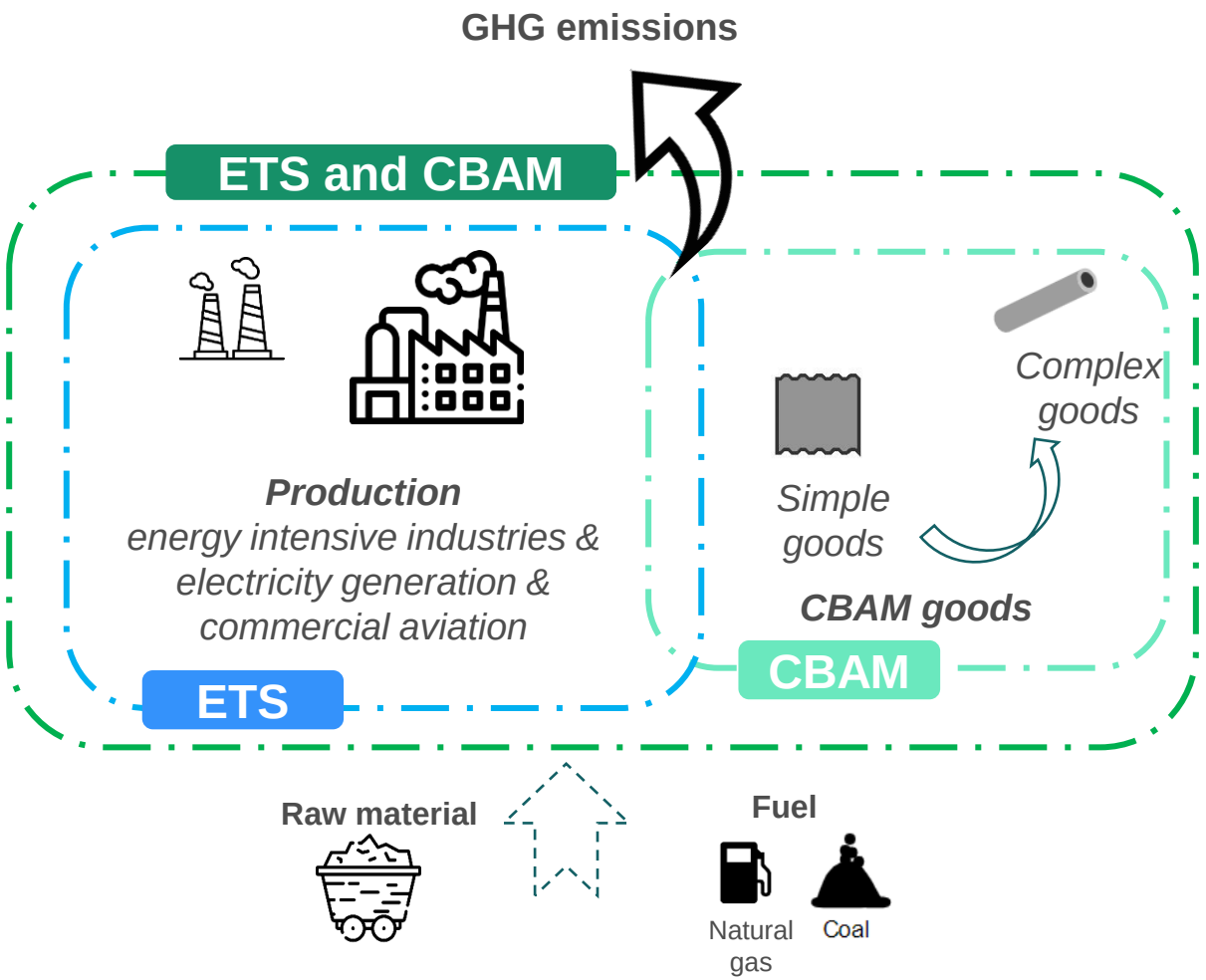
- The transitional period is a **learning phase** for all:
  - Understanding respective roles and tasks
  - Collection of information
  - Facilitate smooth roll out of the mechanism after the 2025

- The information collected will allow the European Commission to **further specify and finalise 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

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

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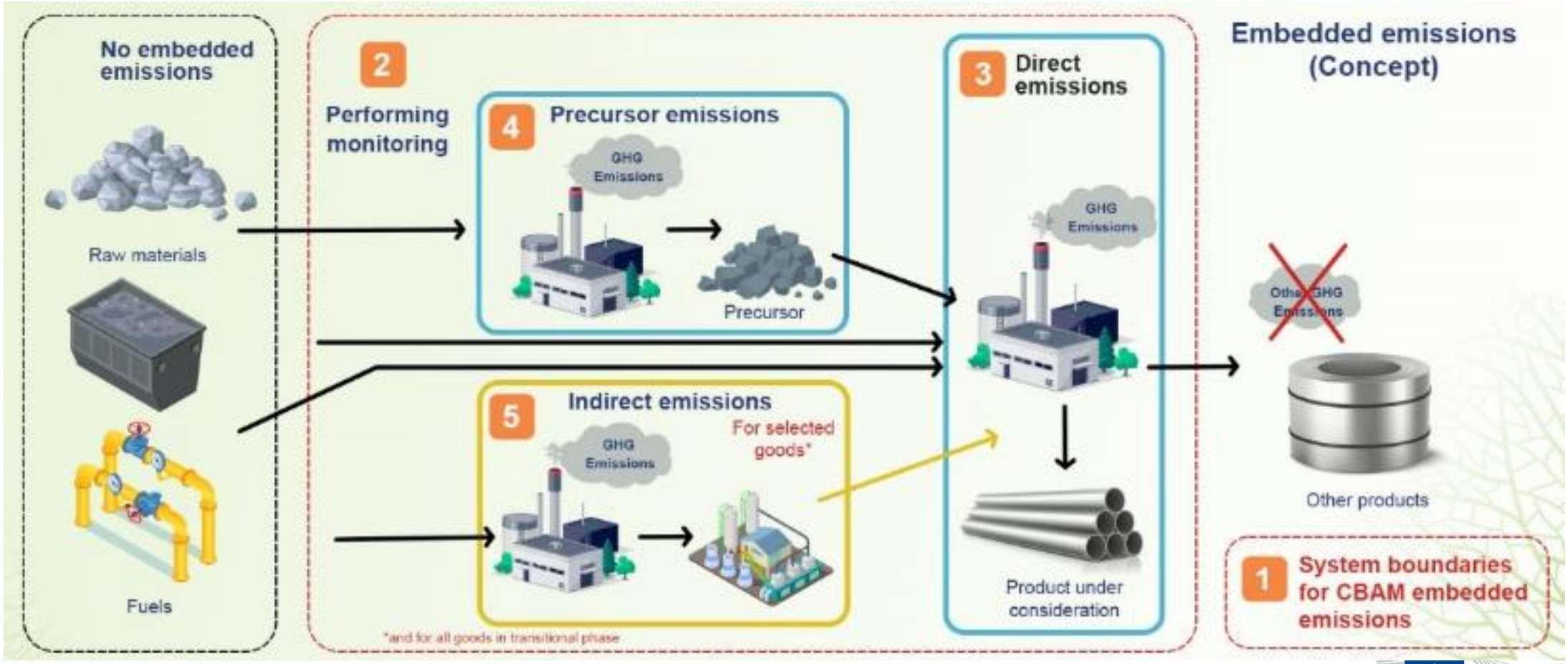
Steps to determine embedded emissions



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Steps to determine embedded emissions

Step 1: Define the installation's boundaries, production processes and production routes
Step 2: Perform monitoring:

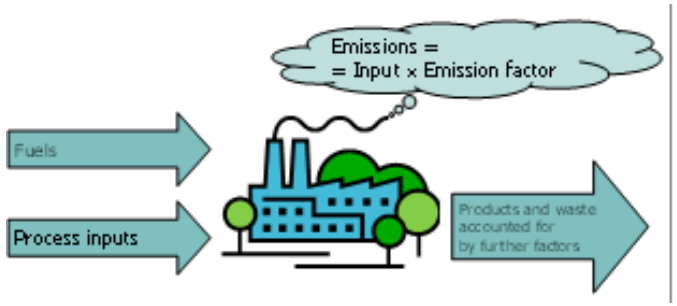
- monitoring direct emissions at installation level, originating from fuel combustion
- monitoring flows of net measurable heat
- monitoring electricity consumption
- monitoring the consumption of precursors.

Step 3: Attribute Emissions to production processes, then to goods
Step 4: For complex goods, add embedded emissions of precursors
Step 5: Monitoring and reporting of indirect emissions
Step 5: Monitoring and reporting of indirect emissions

Monitoring methods for direct emissions

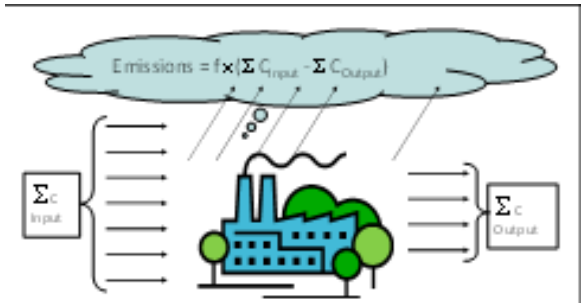
1. Calculation-based methodology

Standard methodology



Based on predetermined emission factors that represent the average emissions per unit of input or output.

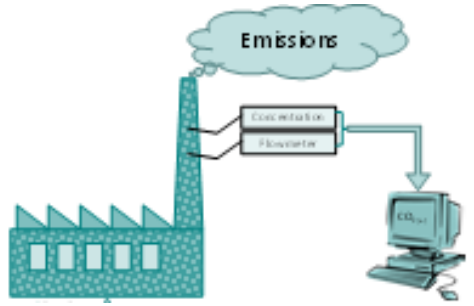
The mass balance method



Based on the idea that what comes into an installation cannot be more than what comes out.

2. Measurement-based methodology

Continuous emissions monitoring system



Continuous measurements of emissions from emission sources at the installation level. Emissions may be measured directly in the stack or using extractive procedures with a measurement instrument located close to the stack.

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Monitoring methods for direct emissions

3. Other monitoring systems

Until 31 December 2024, the level of embedded emissions may be calculated using an ‘eligible monitoring, reporting and verification (MRV) system’, i.e. one of the following methods, if they lead to similar coverage and accuracy of emissions data:

- ✓ 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.

Calculation of attributed direct emissions

Attributed direct emissions of the production process

Emissions related to the attribution of measurable heat exported

Correction for exported waste gases

Emissions related to electricity production

$$AttrEm_{dir} = DirEm^{*} + Em_{H,import} - Em_{H,export} + WG_{corr,import} - WG_{corr,export} - Em_{el,produced}$$

Directly attributable emissions as linked to source streams (exceptions for heat and waste gases)

Emissions related to the attribution of measurable heat imported

Correction for imported waste gases

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Calculation of embedded emissions

Simple goods

$$SEE_{g,dir} = \frac{AttrEm_g}{AL_g}$$

$$SEE_{g,indir} = \frac{AttrEm_{g,indir}}{AL_g}$$

$AttrEmindir=Emel,cons$

$Em_{el} = E_{el} \cdot EF_{el}$

$SEE_{g,dir}/SEE_{g,indir}$… specific embedded direct/indirect emissions in tCO_2e per t goods *g*

AL_g … Activity level of goods g (amount of the goods g produced in the reporting period in that installation, referring to the whole aggregated goods category)

Complex goods

$$SEE_g = \frac{AttrEm_g + EE_{InpMat}}{AL_g}$$

$$EEInpMat = \Sigma Mi \cdot SEEi$$

EE_{InpMat} … Embedded direct or indirect emissions of all precursors consumed

M_i … Mass of precursor *i* used in the production process yielding goods *g*

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How to submit a report?

Who is the responsible for the reporting	• The reporting declarant • **Same as the authorised CBAM declarant but not authorisation** needed yet
How can the reporting declarant 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 installation

- **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**!

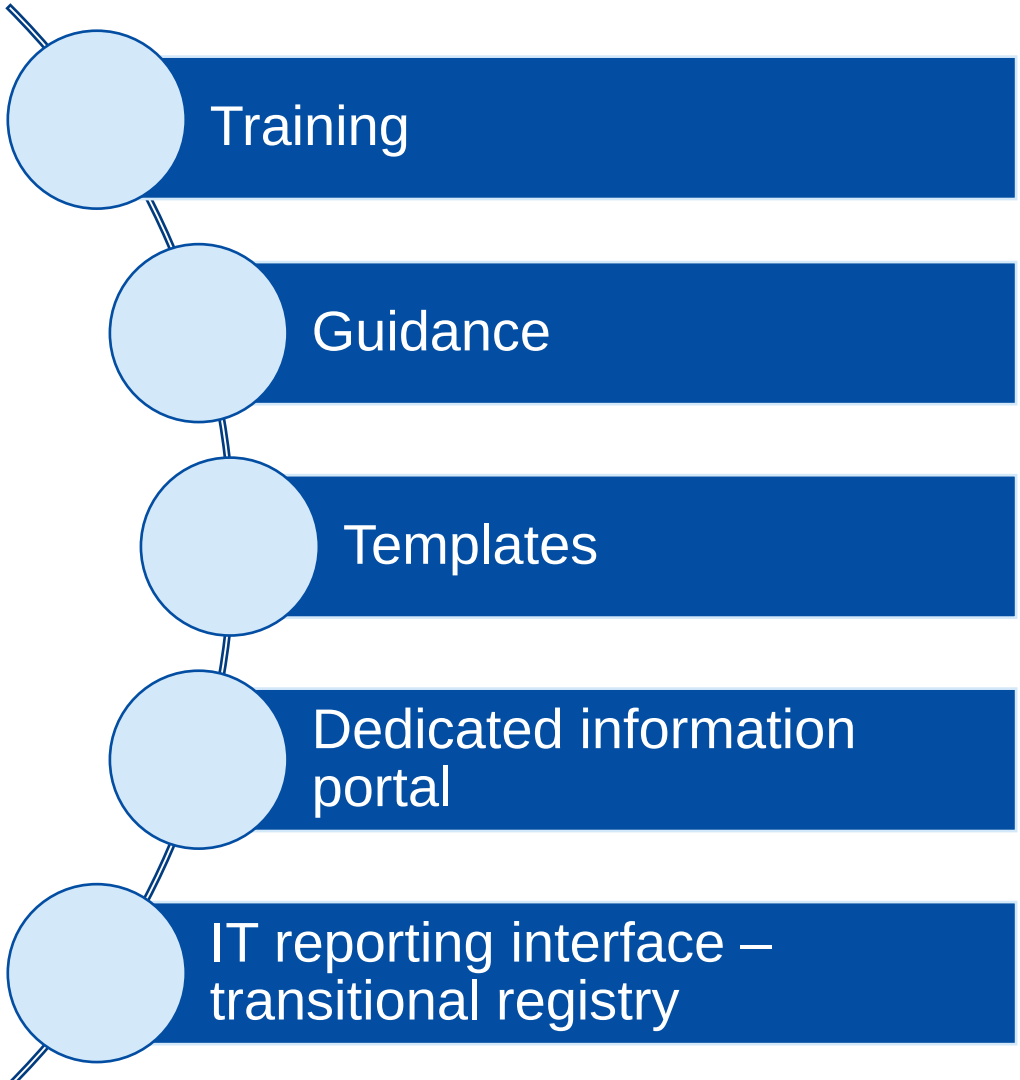
What information is necessary to be communicated for the reporting

- **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)

Is there flexibility for the reporting?

- **Until 31 December 2024**
  - Methods used under monitoring, reporting and verification systems
  - OR methods used in case of (a) carbon pricing scheme, (b) emission monitoring scheme at the installation or (c) compulsory monitoring scheme
- **Until 31 July 2024** : any other referenced method
- **Possibility to use default values for input materials or subprocesses** when relatively minor (<20%) compared to total emissions

Guidance and support by the Commission communication and training



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

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

Excel based templates to facilitate data collection and information exchange

Launch of dedicated Commission website with all information, specialised Q&A and “how to find” guidance

- **Dedicated IT interface for reporting and collection of information**
- **Detailed guidance for users**

Commission tasks during the transitional period

During the transitional period, the Commission will…

- Manage the CBAM Transitional Registry;
- Check the CBAM quarterly reports and communicate with national customs authorities;
- Analyse the impact of CBAM on exports, downstream products, trade flows, LDCs, etc.;
- Prepare secondary legislation for the definitive period: authorisation of declarants, accreditation of verifiers, CBAM registry, selling of CBAM allowances, carbon price paid, ETS price and benchmarks, final methodology, risk of circumvention, etc.
- Set up the Common Central Platform for the sale and repurchasing of CBAM allowances.

Thank you

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