



## CBAM Series

As part of the Carbon Neutrality Action Initiative and to mark the one-year anniversary of the Chamber's report [Carbon Neutrality: The Role of European Business in China's Race to 2060](#), we published a series of posts on the EU's Carbon Border Adjustment Mechanism (CBAM).

## Table of Contents

|  |          |
|--|----------|
| <b>Recent Developments</b> .....                         | <b>2</b> |
| <b>CBAM Infographics</b> .....                           | <b>3</b> |
| What is the EU's Emission Trading System (ETS)?.....     | 3        |
| CBAM introduction and roadmap.....                       | 4        |
| Does it affect your company?.....                        | 5        |
| <b>Frequently Asked Questions</b> .....                  | <b>6</b> |
| <b>CBAM Reporting during the transition period</b> ..... | <b>9</b> |
| What should I report?.....                               | 9        |
| Who should report?.....                                  | 10       |
| How should carbon emissions be calculated?.....          | 10       |



## Recent Developments:

On 10<sup>th</sup> May 2023, the European Parliament and the European Council, as co-legislators, signed the final Carbon Border Adjustment Mechanism (CBAM) Regulation. **The regulation officially entered into force on 17<sup>th</sup> May 2023**, the day after its publication in the Official Journal of the EU.

On 13<sup>th</sup> June 2023, the European Commission published a first [call for feedback on the rules governing the implementation of the CBAM during its transitional phase](#), which starts on 1<sup>st</sup> October 2023 and runs until the end of 2025.

On 17<sup>th</sup> August 2023, the European Commission adopted the rules governing the implementation of the CBAM during its transitional phase, which starts on 1<sup>st</sup> October 2023 and runs until the end of 2025.

The [Implementing Regulation](#) details the transitional reporting obligations for EU importers of CBAM goods, as well as the transitional methodology for calculating embedded emissions released during the production process of CBAM goods.

It provides for some flexibility when it comes to the values used to calculate embedded emissions on imports. During the first year of implementation, companies will have the choice of reporting in the following three ways:

- 1) full reporting according to the new methodology (EU method);
- 2) reporting based on equivalent third-country national systems; and
- 3) reporting based on reference values.

As of 1<sup>st</sup> January 2025, only the EU method will be accepted.

To help both importers and third country producers, the Commission also published [guidance](#) for EU importers and non-EU installations<sup>1</sup> on the practical implementation of the new rules. At the same time, dedicated information technology (IT) tools to help importers perform and report these calculations are currently being developed, as well as training materials, webinars and tutorials to support businesses when the transitional mechanism begins.

The first reporting period for importers ended on 31<sup>st</sup> January 2024, with reporting obligations falling to those importing goods whose production is carbon intensive, including cement, iron and steel, aluminium, fertilisers, hydrogen and electricity.

---

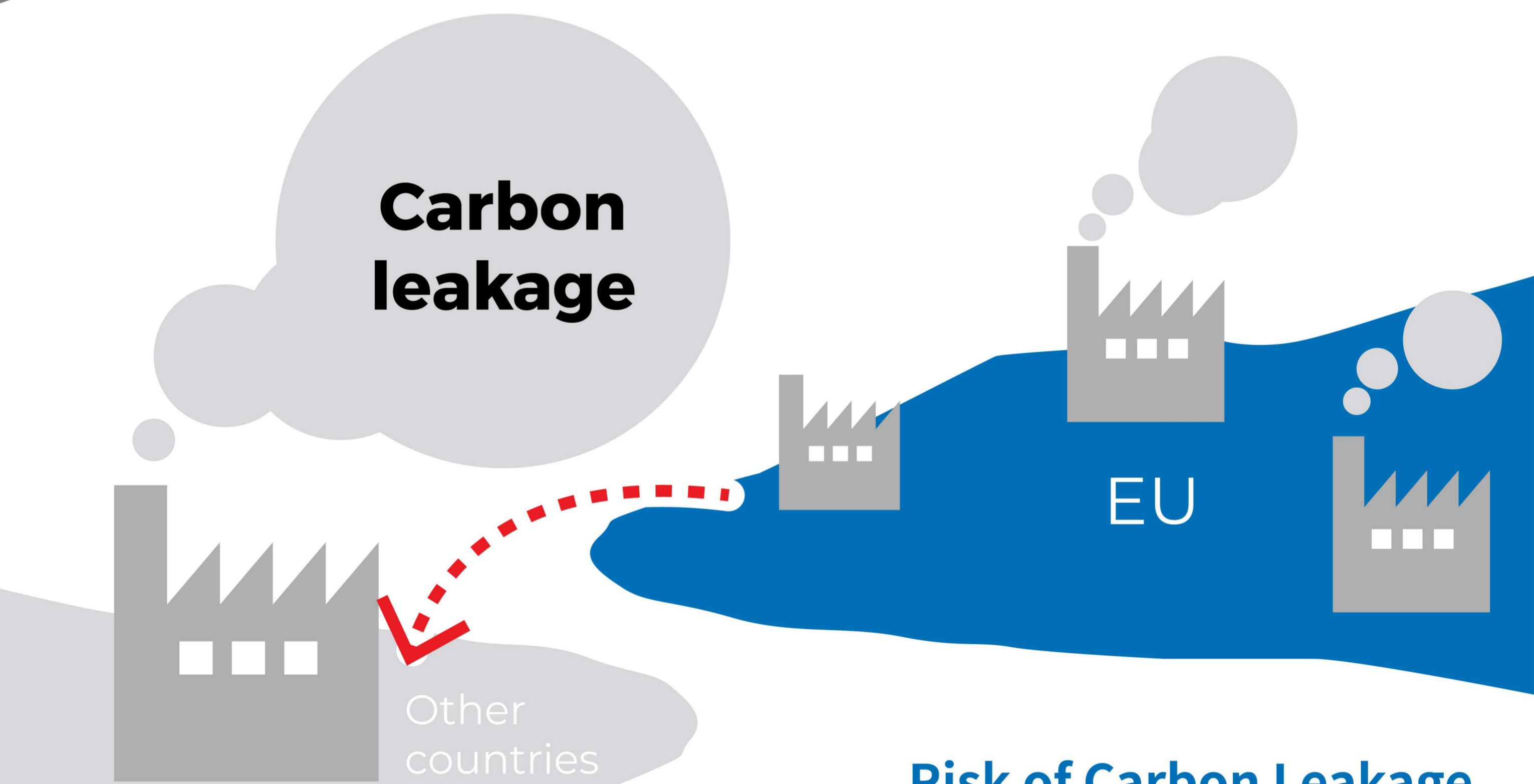
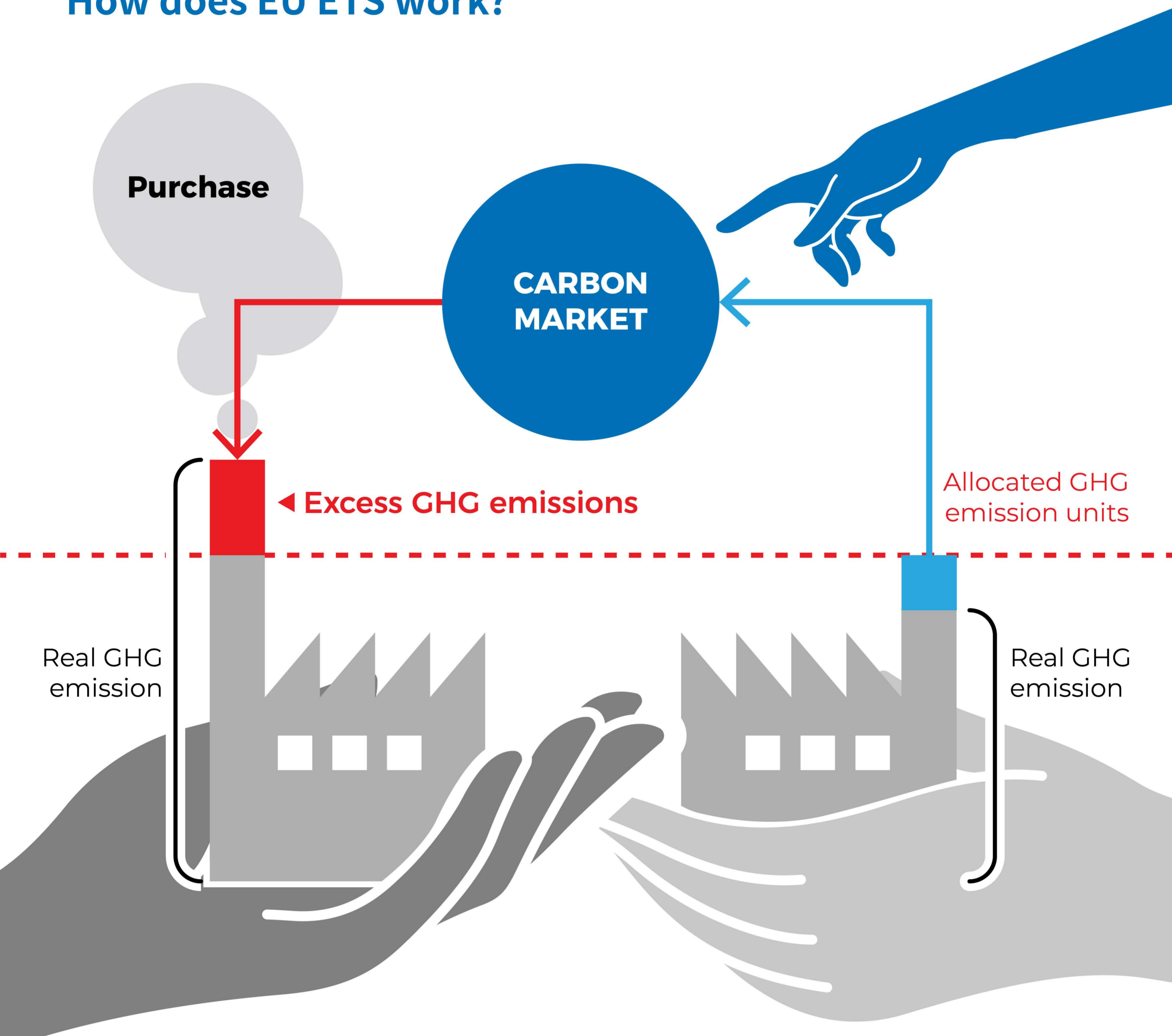
<sup>1</sup> An 'installation' means a stationary technical unit where a production process is carried out.

# Carbon Border Adjustment Mechanism (CBAM) Series

## What is the EU Emission Trading System (ETS)?

‘Cap and trade’: Greenhouse gas (GHG) emissions over the permitted limit (the cap) can be traded as a commodity on the EU carbon market.

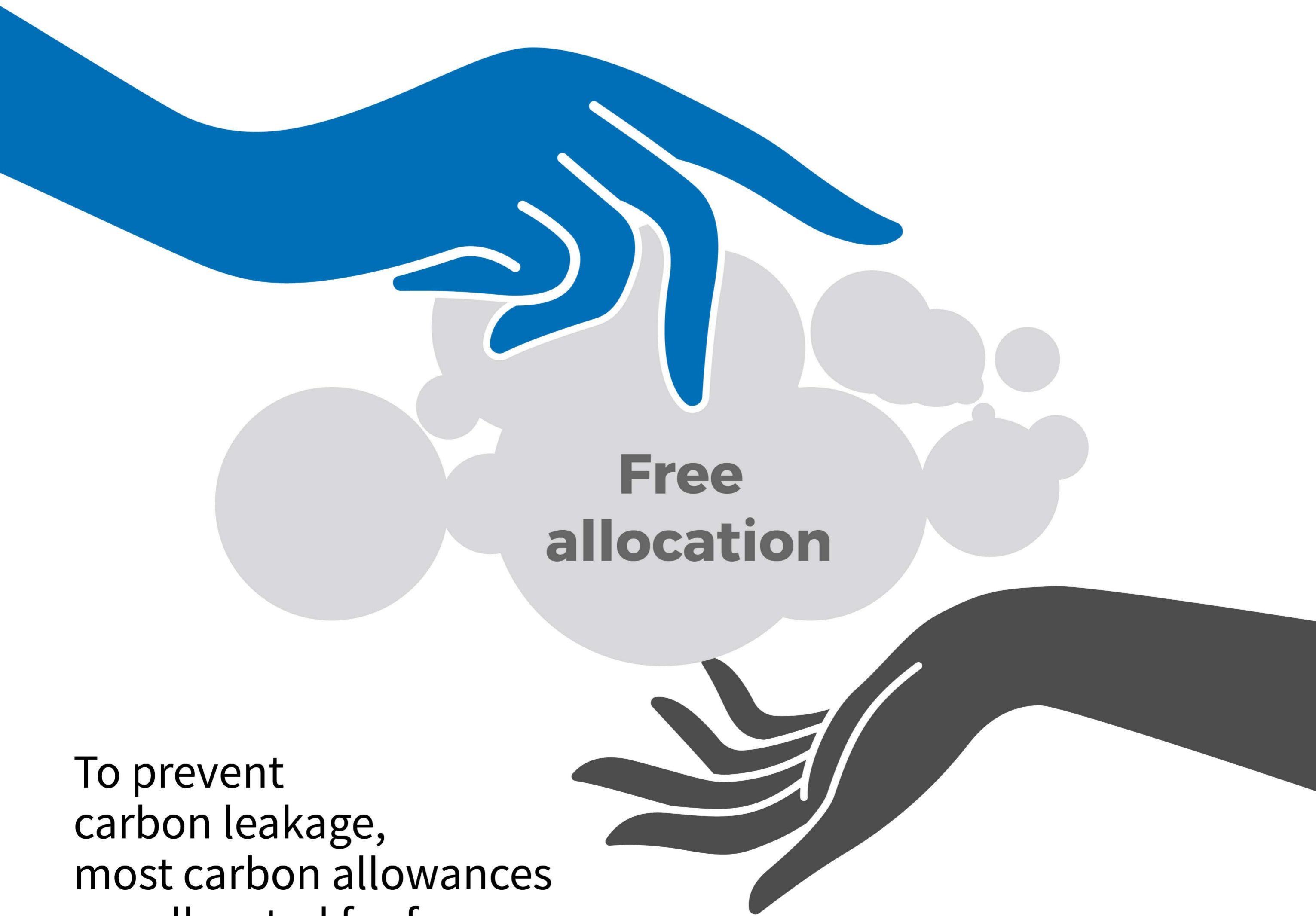
### How does EU ETS work?



### Risk of Carbon Leakage

‘Carbon leakage’ occurs when companies move from the EU to countries with lower environmental standards to avoid the costs associated with the EU ETS.

→ This means global emissions do not decrease overall; and the competitiveness of EU industry is impacted.



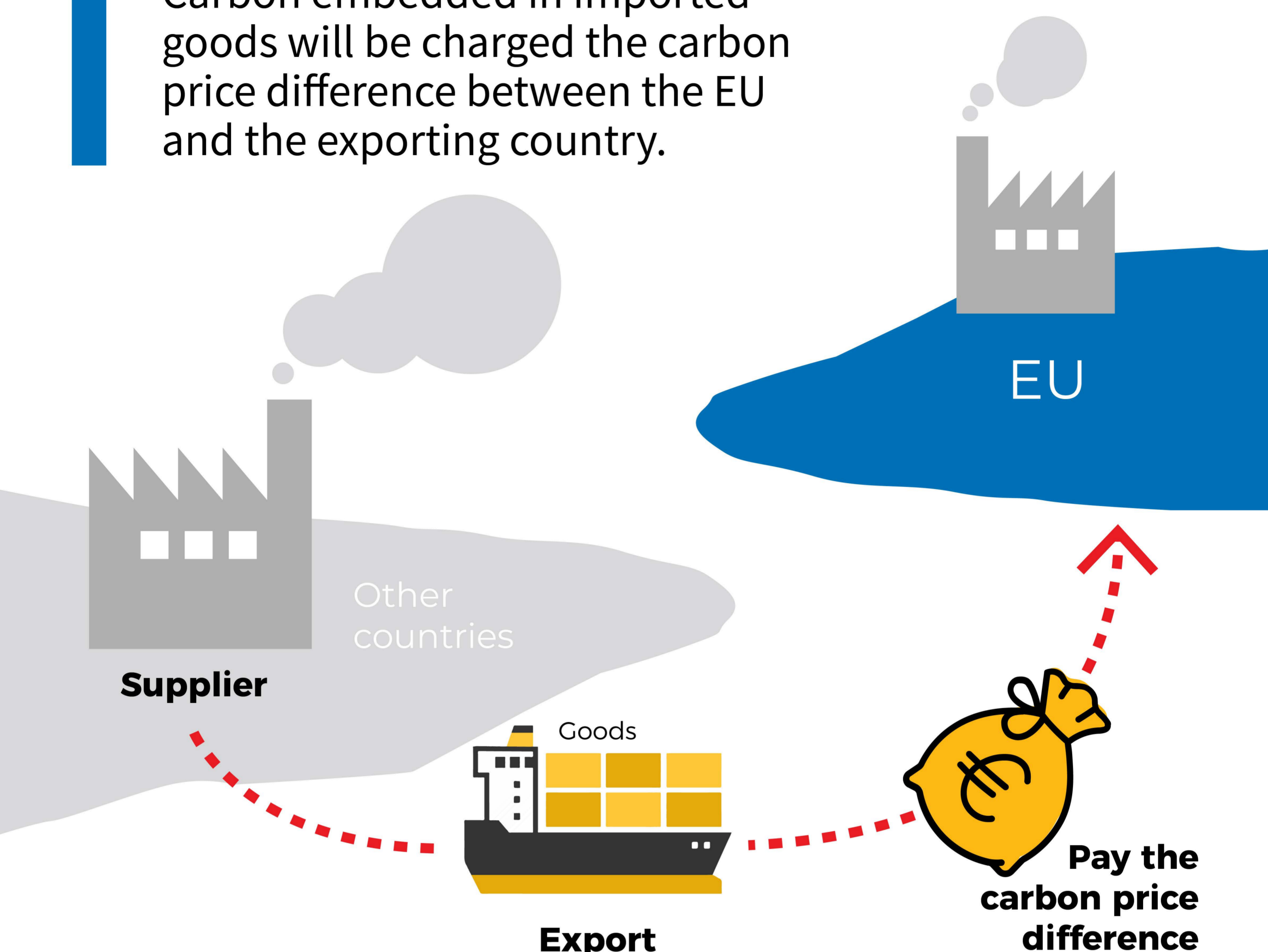
To prevent carbon leakage, most carbon allowances are allocated for free.

→ However, free allocation in the long-term undermines the ‘polluter pays’ principle and risks slowing down the EU’s decarbonisation efforts (lack of incentives to cut emissions).

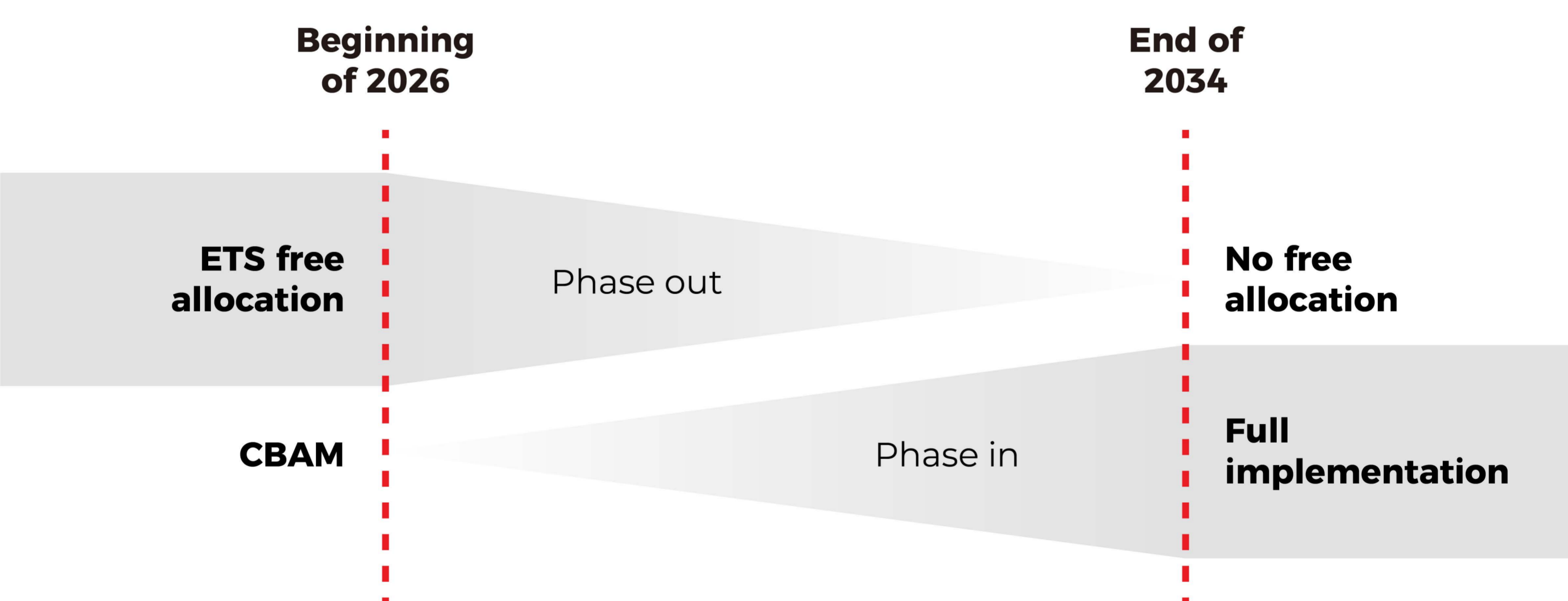
## Carbon Border Adjustment Mechanism (CBAM)

The CBAM will make the EU ETS more effective and counter carbon leakage, while incentivising third countries to reduce emissions:

Carbon embedded in imported goods will be charged the carbon price difference between the EU and the exporting country.



Countries that apply the EU ETS or that are linked to it will be excluded from the CBAM.



While the CBAM is phased in, free allocation of allowances under the EU ETS will be gradually phased out over a nine-year period (from 2026 to 2034).

### Roadmap

Transition period  
(**1<sup>st</sup> October 2023–31<sup>st</sup> December 2025**):  
quarterly reporting is mandatory.

Post-transition period:  
From **1<sup>st</sup> January 2026**,  
payments will be mandatory.

Full implementation:  
**2035**, when free EU  
ETS allowances will  
be phased out.



## Does it affect your company?



If you produce goods covered by the CBAM or secondary goods using components covered by the CBAM – covered goods in the first phase:

**Cement**



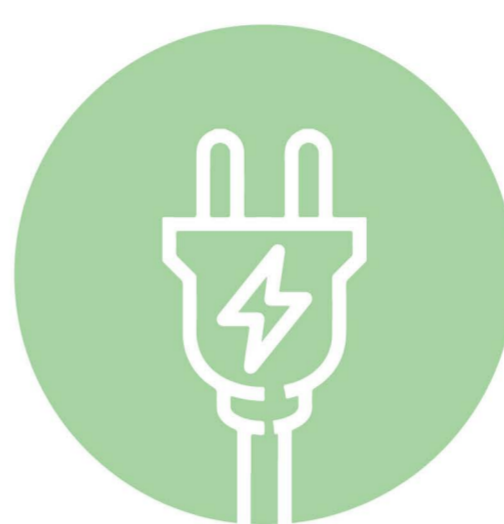
**Iron & steel**



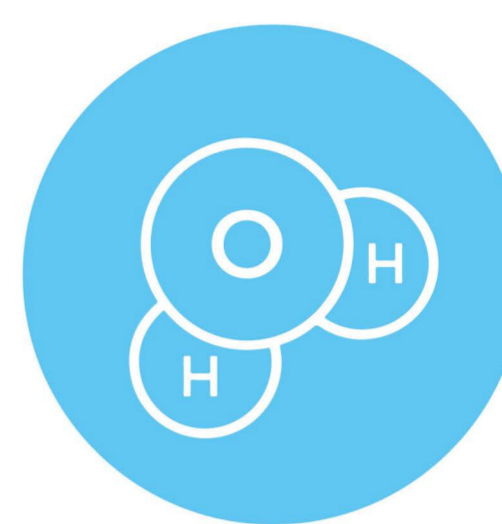
**aluminium**



**Fertiliser**



**Electricity**



**Hydrogen**



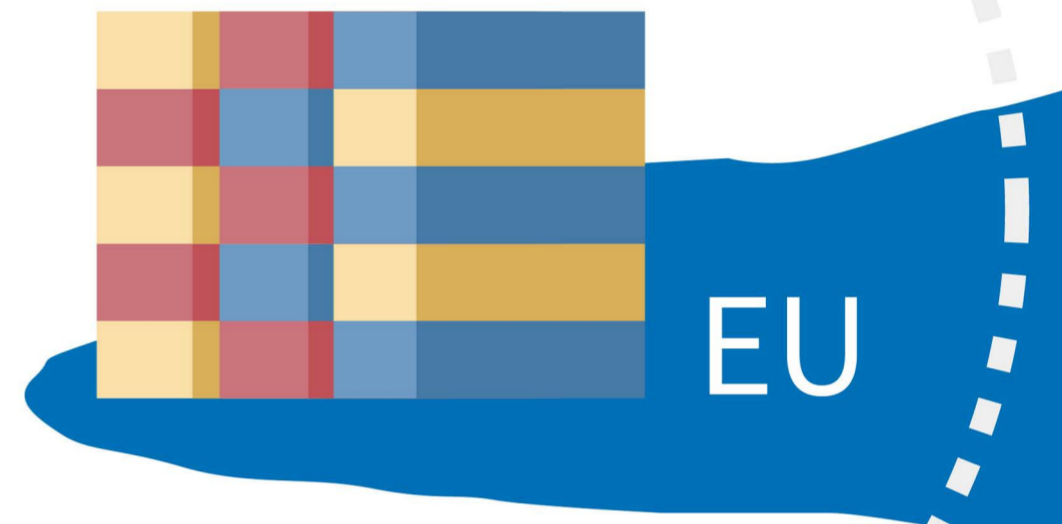
If you export goods covered by the CBAM or secondary goods with components covered by the CBAM to countries either applying the EU ETS or that are linked to it



**Export**

Countries that are linked to the EU ETS

Countries applying the EU ETS



*Based on members' feedback, the current impact on European business in China is limited. However, after the transition period, it will have larger impact especially if the scope of covered goods is expanded.*

## Tasks for affected companies:

Prepare quarterly reports for: embedded emissions, exported goods within the CBAM scope, the carbon price in China, and carbon intensity (starting from 1st October 2023)

Review supply chains

Calculate the financial impact so business plans can be adjusted

Optimise production processes to reduce emissions

Establish a management system for carbon monitoring, reporting and verification



## Recommendation for all companies exporting to EU ETS countries:

Monitor CBAM developments for any changes to the scope of covered items



## Frequently Asked Questions

*Disclaimer: This information is provided for informational purposes only, and should not be construed as business or legal advice on any specific facts or circumstances. No users of this FAQ should act or refrain from acting on the basis of any content included, without seeking appropriate professional advice.*

### **Q1: What will the general impact of the European Union's (EU's) Carbon Border Adjustment Mechanism (CBAM) be on China's national Emissions Trading System (ETS)?**

**A:** While China's National ETS currently only covers the power generation sector, the introduction of the CBAM is likely to see sectors such as iron and steel, aluminium, and cement added. Their addition to the ETS would be in line with China taking steps to adjust to the CBAM.

### **Q2: What are some of the potential impacts of the CBAM on goods produced in China for export to the EU?**

**A:** In the short term, the CBAM will not have a substantial impact on goods produced in China, as the country's exports of CBAM-covered products account for less than two per cent of its total exports to the EU. In fact, aluminium, iron and steel comprise almost 99 per cent of those exports, which is worth around Chinese CNY 2–2.8 billion in carbon border tax to the EU every year.<sup>2</sup>

The CBAM will have a significant impact in the longer term, as the EU transitions to full implementation in 2035. Once the CBAM coverage is expanded to all sectors under the EU ETS, it will become imperative for China to include other key emitting industries in its own national carbon market in order to reduce CBAM fees and enhance its competitiveness in an increasingly carbon-constrained world.

While the CBAM may have become a highly controversial topic, it provides a compelling argument for strengthening EU-China cooperation on decarbonisation, to ensure that the global climate agenda moves forward. A good place to start would be harmonising the standards and requirements for carbon emissions monitoring, reporting and verification (MRV).

### **Q3: How does China calculate emissions at the enterprise and product level, especially for multi-input and multi-output industries like iron and steel?<sup>3</sup>**

**A:** The implementation of the CBAM requires a more accurate accounting method. Currently,

---

<sup>2</sup> *How will EU's 'green tariff' impact China's carbon market?*, China Dialogue, 6<sup>th</sup> February 2023, viewed 9<sup>th</sup> May 2023, <<https://chinadialogue.net/en/climate/how-will-eus-green-tariff-impact-chinas-carbon-market/>>

<sup>3</sup> The three typical carbon accounting methods are: the actual measurement method, the emission factor method, and the input-output method. The input-output method measures CO<sub>2</sub> emissions by calculating the difference between inputs (fuels, materials, fluxes, etc.) and outputs (products, by-products, etc.).

the Chinese Government provides national standards for calculating enterprise-level emissions in major industries. A more detailed product-level standard will be updated in the next two to three years.

**Q4: How do European enterprises rate China’s national ETS, and how do they feel about carbon trading in China?**

**A:** The European Chamber’s *Business Confidence Survey* (BCS), released in June 2023, found that a six per cent of respondents (+1pp y-o-y) have already achieved or are near to achieving carbon neutrality. A further 52 per cent are actively taking measures to become carbon neutral, a 6pp y-o-y increase.

Meanwhile, 53 per cent of BCS 2023 respondents reported that uncertainties over China’s national ETS is a top-three issue that may prevent them from achieving their decarbonisation goals in China. According to the European Chamber’s report *Carbon Neutrality: The Role of European Businesses in China’s Race to 2060*, released in May 2022, the Chinese authorities could make China’s national ETS more effective by introducing an absolute cap on emissions, pushing up the carbon price and adopting best practices from the EU’s MRV experiences.

**Q5: Is there a timeline for the CBAM to expand its scope sectors?**

**A:** There will be a review in 2025 to make extension decisions. The Commission will investigate the CBAM’s extensions to indirect emissions for more sectors, as well as upstream and downstream products, but the date of the extension remains undecided.

**Q6: Will the reporting obligations listed in the Implementing Regulation be the official rules for the definitive period or just temporary rules for the transitional period?**

**A:** The transitional rules will not remain exactly the same as the rules for the definitive period but may give an indication for future rulemaking. The CBAM is not only a reflection of the EU emissions trading system (ETS) but is also an approach open to reporting from the rest of the world. The information collected during the transitional period will be used to improve the mechanism from the perspectives of the EU, foreign businesses and the authorities.

**Q7: Will the EU asset verifiers be accredited by accreditation bodies in other jurisdictions?**

**A:** Verifiers will be regulated in the definitive period but not in the transitional period. International and local verifiers with accreditations approved by any EU accreditation body will be accepted.

**Q8-1: When will the default values<sup>4</sup> be available and will they differ from one country to**

---

<sup>4</sup> Default values are used when sufficient data on actual greenhouse gas emissions are not available.

another country?

**Q8-2: Is it possible that manufacturers would use default values set in the CBAM as an excise duty to avoid investing in Monitoring, Reporting and Verification (MRV)?**

**A:** Default values will be made available towards the end of the transitional period in 2025, and will vary between countries and sub-national regions. The Commission will publish in September 2023 a study on average emissions from all countries in the world, which will feed into the setting of default values in 2025. Data collected during the transitional period from various countries will also be used.

The possibility to use default values as a reference for the definitive period will always exist. However, producers with lower emissions would prefer to choose actual emissions rather than default values, since the latter represent the upper average of emissions.

**Q9: Are International Renewable Energy Certificates (IRECs) or carbon removals allowed under the EU CBAM?**

**A:** IRECs and carbon removals are not mentioned in the *Implementing Regulation* because the Commission tries to reflect in the CBAM what is covered in the context of the EU ETS. Other carbon pricing mechanisms may be taken into account after the recognition of a possible carbon price paid in the country of production, but this still needs to be discussed between the Commission and partner countries.



## CBAM Reporting:

The EU's CBAM entered a transitional phase on 1<sup>st</sup> October 2023 and will run until 31<sup>st</sup> December 2025. The first reporting period for importers ended on 31<sup>st</sup> January 2024, with reporting obligations falling to those importing goods whose production is carbon intensive, including cement, iron and steel, aluminium, fertilisers, hydrogen and electricity.

Companies that may be impacted by the CBAM are advised to appoint teams to fully understand their responsibilities and actions that need to be taken to ensure compliance. Please find below helpful information on reporting during the CBAM transition period:

### I. What should I report during the transitional period?

- the total quantity of each type of goods;
- the actual total embedded emissions;
- the total indirect emissions; and
- the carbon price due in a country of origin for the embedded emissions in the imported goods, taking into account any rebate or other form of compensation available.<sup>5</sup>

Specific information needs to be reported by each CBAM-covered sector:

①

| Issue   | CBAM good   |  |                                |   |                      |   |
|---|---|--|--------------------------------|---|----------------------|---|
|   | Cement  | Fertilisers  | Iron/Steel                     | Aluminium   | Hydrogen             | Electricity   |
| <b>Reporting metrics</b>                            | (per) Tonne of good   |  |                                |   |                      | (per) MWh   |
| <b>Greenhouse gases covered</b>                     | Only CO <sub>2</sub>  | CO <sub>2</sub> (plus nitrous oxide for some fertiliser goods) | Only CO <sub>2</sub>           | CO <sub>2</sub> (plus perfluorocarbons (PFCs) for some aluminium goods) | Only CO <sub>2</sub> | Only CO <sub>2</sub>  |
| <b>Emission coverage during transitional period</b> | Direct and indirect   |  |                                |   |                      | Only direct   |
| <b>Emission coverage during definitive period</b>   | Direct and indirect   |  | Only direct, subject to review |   |                      | Only direct   |
| <b>Determination of direct embedded emissions</b>   | Based on actual emissions, unless they cannot be adequately determined  |  |                                |   |                      | Based on default values, unless several cumulative conditions are met |
| <b>Determination of indirect embedded emissions</b> | Based on default values, unless conditions are met (i.e. direct technical connection or power purchase agreement) |  |                                |   |                      | Not applicable  |

<sup>5</sup> *Questions and Answers: Carbon Border Adjustment Mechanism (CBAM)*, European Commission, 14<sup>th</sup> July 2023, <[https://taxation-customs.ec.europa.eu/system/files/2023-07/20230714%20Q%26A%20CBAM\\_0.pdf](https://taxation-customs.ec.europa.eu/system/files/2023-07/20230714%20Q%26A%20CBAM_0.pdf)>

## II. Who should report?

The one who declares.<sup>6</sup>

The ‘reporting declarant’ is the entity that is responsible for the reporting of embedded emissions of imported goods. In principle, the reporting declarant is the importer. In line with the options provided under the Union Customs Code (UCC16), the reporting declarant can be either:

- the importer who lodges a customs declaration for release for free circulation of goods in its own name and on its own behalf;
- the person, holding authorisation to lodge a customs declaration referred to in Article 182(1) of the UCC, who declares the importation of goods; or
- the indirect customs representative, where the customs declaration is lodged by the indirect customs representative appointed in accordance with Article 18 of the UCC, when the importer is established outside the EU or where the indirect customs representative has agreed to the reporting obligations in accordance with Article 32 of the CBAM Regulation.

## III. How should carbon emissions be calculated?

Calculation of emissions for goods is different from that for energy. Methods for calculation for ‘goods’ are clarified in the Regulation (EU) 2023/956,<sup>7</sup> as follows:

### 1. Full reporting according to the new methodology (EU method):

- i) Determination of actual specific embedded emissions for ‘simple goods’, according to the following equation:

$$SEE_g = \frac{AttrEm_g}{AL_g}$$

| Term           | Definition   |
|----------------|--|
| ‘Simple goods’ | goods produced in a production process requiring exclusively input materials (precursors) and fuels having zero embedded emissions |

<sup>6</sup> *Guidance Document on CBAM Implementation for Importers of Goods into the EU*, European Commission, 17<sup>th</sup> August 2023, <[https://taxation-customs.ec.europa.eu/system/files/2023-08/CBAM%20Guidance\\_EU%20importers\\_0.pdf](https://taxation-customs.ec.europa.eu/system/files/2023-08/CBAM%20Guidance_EU%20importers_0.pdf)>

<sup>7</sup> “Annex IV. Methods for calculating embedded emissions for the purpose of Article 7”, *Regulation (EU) 2023/956 of the European Parliament and of the Council European Union*, Official Journal of the European Union, 10<sup>th</sup> May 2023, <<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023R0956>>

|                     |  |
|---------------------|--|
| SEEG                | the specific embedded emissions of goods (g), in terms of CO <sub>2</sub> per tonne                                    |
| AttrEm <sub>g</sub> | the attributed emissions of goods (g)  |
| AL <sub>g</sub>     | the activity level of the goods, being the quantity of the goods produced in the reporting period in that installation |

- ii) Determination of actual specific embedded emissions for ‘complex goods’, according to the following equation:

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

| Term            | Definition  |
|-----------------|---|
| ‘Complex goods’ | goods other than simple goods   |
| EEInpMat        | embedded emissions of the input materials (precursors) consumed in the production process |

## 2. Default values based on average emission intensity of each exporting country

When actual emissions cannot be adequately determined by the authorised CBAM declarant, default values shall be used. Those values shall be set at the average emission intensity of each exporting country and for each of the goods other than electricity, increased by a proportionately designed mark-up. This mark-up shall be determined in the implementing acts adopted and shall be set at an appropriate level to ensure the environmental integrity of the CBAM, building on the most up-to-date and reliable information, including on the basis of information gathered during the transitional period.

## 3. Default Values based on average emission intensity of EU ETS

When reliable data for the exporting country cannot be applied for a type of goods, the default values shall be based on the average emission intensity of the X % worst performing EU ETS installations for that type of goods. The value of X shall be determined in the implementing acts adopted and shall be set at an appropriate level to ensure the environmental integrity of the CBAM, building on the most up-to-date and reliable information, including on the basis of information gathered during the transitional period.