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Efficient, Optimised, Regulatory Integration

# Carbon Border Adjustment Mechanism

*Whitepaper*



# OVERVIEW

This whitepaper is a simplified guide of the Carbon Border Adjustment Mechanism (CBAM). **CBAM** is an EU strategy to fight climate change. The main aim is to level the playing field for EU producers subject to EU carbon pricing to ensure fair competition with countries where carbon pricing is less stringent. It also aims to incentivise foreign producers adopting cleaner and more sustainable production processes. This ensures that EU importers pay a fair price for their Carbon emissions comparing to the EU ETS (Emission Trading System).

## EU ETS

Creates financial incentive for EU's largest emitters to cut back. It sets a cap on total amount of greenhouse gases that a company can emit each year. There is a fixed number of allowances which are the currency of the carbon market. Companies are fined if they exceed their emissions allowance but they can buy extra allowances from another emitter. Over time, the cap is reduced and alternative methods of energy production are encouraged.

**CBAM** only covers certain goods groups at the moment, these are:

- Cement
- Fertilizers
- Iron and Steel
- Aluminium
- Electricity
- Hydrogen
- Downstream products (screws, bolts, containers of steel or aluminium etc).



# Timeline

This will be implemented in two stages, a Transitional Period and a Definitive Period. The Transitional period began on 1st October 2023. This period has reporting obligations on direct and indirect emissions where EU importers must comply with the reporting requirements, but do not need to purchase CBAM certificates yet. Instead, they must submit a CBAM report which states:

- **Quantity of CBAM goods imported**
- **Embedded emissions in those goods**
- **Carbon price paid in origin country (if applicable)**

The second phase is a Definitive Period, beginning on 1st January 2026. During this period, the EU importers must purchase CBAM certificates to import CBAM Goods.

From 2026 (Definitive Period), there are several key features of the CBAM:

- **Authorised Declarants**
  - EU Importers must be authorised by competent authorities to import CBAM goods.
- **CBAM Declaration**
  - EU importers to submit a CBAM declaration for the preceding year on the quantity of imported goods and their total embedded emissions.
- **CBAM Certificate**
  - EU importers to purchase CBAM certificates corresponding to embedded emissions in the imported goods.
    - Certificates are limited by quarter and must correspond to 80% of embedded emissions.
    - The number of CBAM certificates subject to repurchase to authorities limited to 1/3 of total number of CBAM certificates.
    - CBAM certificates have set validity period.
- **Default Value**
  - Embedded Emissions in CBAM goods calculated based on default value unless lower emissions are demonstrated at import.
- **Carbon prices paid in country of origin**
  - If an importer can prove that carbon price has been paid in the country of origin of the imported goods, required CBAM certificates can be reduced.
  - An authorised CBAM declarant may claim a reduction in CBAM certificates to be surrendered to take account for carbon price paid in country of origin.
  - Carbon Price is monetary amount paid in a third country.

For purposes of CBAM, countries that adopt EU ETS or are linked with this are exempted from the CBAM.



# CBAM - Transitional Period

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## Review of CBAM reports

- By the EU Commission to assess compliance within three months after the last CBAM report is submitted
- By Member States competent authorities to review and assess data, information and list of reporting declarant
- Correction procedure may be initiated by the competent authorities after 31 December 2025 for incomplete, incorrect or failure to submit a CBAM report.

## CBAM Transitional Registry

- Electronic database to collect the information reported during the transitional period
- Enables communication, checks and information exchange between the EU Commission, competent authorities, Member States' customs, and reporting declarants.

## Penalties for failure to comply with the reporting obligation

- Between €10 and €50 per ton of unreported embedded emissions (while the price for actual emissions for a ton of carbon under the ETS is around €90, with most allowances given free of charge)
- Penalties should be based on the (high) default values made available and published by the Commission for the transitional period for the embedded emissions that were not reported
- Higher penalties will be applied if
  - more than two incomplete or incorrect reports submitted in a row or
  - the duration of the failure to report exceeds 6 months.



# CBAM - Transitional Period

This will run from 1st October 2023 – 31st December 2025.

Requirements in this period are as follows:

- All CBAM goods must have had indirect emissions reported quarterly. This should be done as accurately as possible.
- Global Default Values can be used.
- Surrender of CBAM certificates is not yet required.

## Quarterly reports (first report in Jan 2024)

### Reporting Declarant that places CBAM goods on the EU market

- Importer lodging the customs declaration to release CBAM goods for free circulation;
- Person holding an authorisation to lodge a customs declaration who declares the import of CBAM goods; or
- Indirect customs representative

### Reporting elements

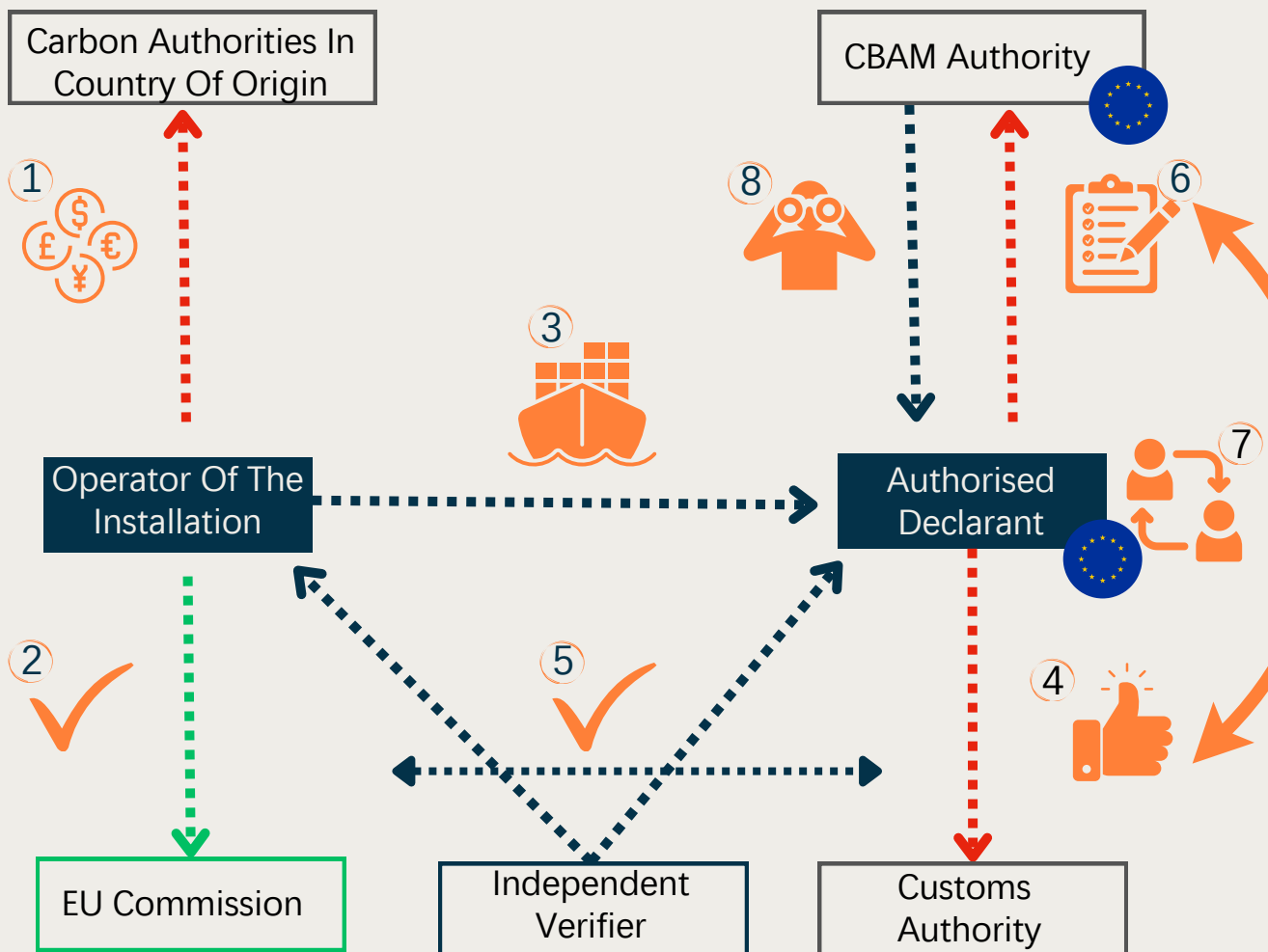
- **Imported goods** – Total quantity of imported goods and CN code of the type of goods
- **Embedded emissions** – Country of origin, installation of production, production route used, and information on parameters qualifying the indicated production route chosen

#### How to calculate?

- *EU method: calculation-based approach or measurement-based approach (mandatory approach as from 1 Jan 2025);*
- *Equivalent third country national systems (until 31 Dec 2024); or*
- *Other method (until 31 Jul 2024)*
- **Indirect emissions** – Electricity consumption, confirmation of whether the declarant is reporting actual emissions or default values, corresponding emissions factor, and amount of specific indirect emissions (Annex IV)
- **Carbon price paid in the country of origin for embedded emissions** – Form of carbon price, country of origin, rebate, or other form of compensation available on the country that could have reduced the carbon price, reference to the legal provisions establishing the carbon price, rebate or any other form of compensation, type of product by CN code, quantity of embedded emissions covered by the carbon price, quantity of embedded emissions covered by any rebate or other form of compensation (inc. free allocations), and monetary amount.

# CBAM in the Definitive Period

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1. Carbon price paid in the origin country
2. Registration with EU Commission (optional)
3. EU Import of CBAM listed goods
4. Authorised Declarant identified towards customs authority
5. Independent Verifier to verify embedded emissions and carbon payments in country of origin that are declared in CBAM declaration
6. Authorised Declarant :
  - a. Gathers emission data (from suppliers, EU-Commission or benchmarks)
  - b. Previously registers and annually submits CBAM declaration
  - c. Acquires CBAM certificates
7. Periodically exchange of information about imported goods
8. CBAM authority controls Authorised Declarant

# Economic Operator Roles in CBAM

## Non-EU Producers

Bear the burden for mandatory CBAM certificates for every ton of carbon emitted during production process of their products  
Certificates can be reduced if carbon prices have been paid in country of origin.

## EU Importers

Be an authorised declarant. Purchase CBAM certificates accordingly and submit manual CBAM declaration. Price of certificates is determined by price of emissions allowances under EU ETS.

## EU Domestic Producers

Not applicable on domestic production within the EU. Also includes EEA and Switzerland.

## Customers

- Carbon intensive products become more expensive in the EU, may be less competitive.
- Likely to prefer products with low carbon emissions.

## Transfer of CBAM Certificates

Trading in CBAM certificates has strict rules attached to it. An EU importer must purchase CBAM certificates corresponding to embedded emissions in the imported goods based on actual embedded emissions or the default value. Limitations are as follows:

- Companies must purchase and release in the CBAM registry at the end of each quarter CBAM certificates corresponding to at least 80 % of the embedded emissions.
- Only authorities can repurchase the certificates, and this is limited to one third of the total number of excess CBAM certificates.
- CBAM certificates are valid only for a period of a limited period of time from the date of purchase (to be determined in IR)





## What Does It Mean For EU Importers?

India reported **16.59%** of its exports were to the EU in 2022 and **9.6%** of these were base metals and articles.

EU Importers should prepare soon, whether their goods are already in the CBAM remit or not. The CBAM is likely to extend the goods that are currently in scope. It is likely to extend to automobiles and machines as well as electronic devices and batteries.

For now, importers should report embedded emissions on imported goods from last month and should be prepared to purchase CBAM certificates from 2026.

CBAM application is linked to Tariff classification so EU importers should ensure that their goods have been classified accurately. As well as this, they should ensure that the origin has been determined correctly. They must be authorised by competent authorities, though it is the declarant who must pay for the certificates and any fines/penalties. It is the EU importer who should calculate their embedded emissions and submit these as part of their CBAM declaration.

Products could get stopped at the border if the goods have not been declared by an authorised declarant. If declared incorrectly, the authorities may require payment of CBAM after importation. This could also be the case if the products are incorrectly classified or if origin is incorrectly declared.





# Requesting Information from the Supplier / Plant Operator

1. Define which CBAM goods you are importing.

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

2. Identify parameters to be requested from operators and to report on:

- Direct Emission of installation
- Indirect Emissions (occurring during production of electricity that installation of manufacturer consumed)
- Precursors – report detailed data on precursors from the operator to the importer is not mandatory but is necessary for the emissions related to the precursors to be included in the data reported for the CBAM good. It is good practice for the precursor data to be provided to facilitate the checking of the reported data.
- Additional qualifying parameters to report as the importer, depending on the CBAM goods produced (e.g., for cements imported, the total clinker content needs to be reported; for mixed fertilizers, the contents of the different forms of nitrogen, etc.)

## UK CBAM

The UK is expected to launch its own version of CBAM in 2026 to coincide with the arrival of the EU's CBAM program to avoid the UK becoming a dumping ground of high carbon-intensive products that face levies at import into the EU.

Unless the UK aligns its carbon prices with those of the EU then UK exports will face levies when exporting to their continental neighbours, as the current carbon prices set by the UK are far lower than those across the channel. If both the EU and UK implanted CBAM in full today, then UK exporters would be at a significant disadvantage as the UK carbon price is around £41 per tonne compared with £66 a tonne in the EU.

The UK is certain to introduce their own version of CBAM in the near future but how closely linked this will be to the EU is yet to be seen.





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