EORI (UK) LIMITED

Carbon Border Adjustment Mechanism

Whitepaper

Overview

This whitepaper is a simplified guide of the Carbon Border Adjustment Mechanism (CBAM). **CBAM** is a key element of the European Union's strategy to combat climate change and prevent carbon leakage. Its primary goal is to ensure that imported goods are subject to the same carbon costs as products manufactured within the EU under the Emissions Trading System (EU ETS). This helps maintain a level playing field for EU industries that are already paying for their emissions and encourages foreign producers to adopt cleaner and more sustainable production practices.

The **EU Emissions Trading System (EU ETS)** is the EU's main tool for cutting greenhouse gas emissions. It sets a cap on total emissions from key sectors like power, industry, and aviation, and issues allowances that companies can trade. If a company emits less than its allowance, it can sell the surplus; if it exceeds, it must buy more or face penalties. The cap is reduced yearly to drive emissions down.

As of 2025, the EU ETS is being strengthened. The cap is tightening faster to meet the EU's 2030 climate goals, and free allowances will be phased out starting in 2026 alongside the rollout of the Carbon Border Adjustment Mechanism (CBAM). The system now includes maritime transport and will expand further with a new ETS II for buildings and road transport from 2027.

Initally, **CBAM** applies to imports in carbon-intensive sectors such as:

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

Over time, this list is expected to expand, potentially affecting a broader range of goods as climate ambitions evolve.

Timeline

CBAM is being implemented in phases. The transitional phase, which began in October 2023 and runs until the end of 2025, requires importers of high-emission goods such as iron, steel, aluminium, cement, fertilisers, hydrogen and electricity to report the embedded greenhouse gas emissions quarterly. There is no financial charge yet, however penalties of up to €50 per tonne of CO_2 apply for non-compliance. Small importers (under 50 tonnes annually) are exempt.

The Definitive Period of the Carbon Border Adjustment Mechanism (CBAM) begins on 1 January 2026. During this phase, EU importers of CBAM goods must purchase CBAM certificates reflecting the carbon emissions embedded in their imported products. To comply, importers must be officially registered and recognised as Authorised Declarants by the competent national authorities.

Each year, importers are required to submit a CBAM declaration for the previous year, detailing:

- The quantity of imported CBAM goods
- The total embedded greenhouse gas emissions in those goods

Key requirements during the Definitive Period include:

- **CBAM Certificates:**
  - Must be purchased to cover at least 80% of reported embedded emissions
  - Issued quarterly and valid for a limited period
  - Up to one-third of unused certificates can be returned to authorities

- **Default Values:**
  - Used to calculate emissions when no verified data is provided

- **Carbon Prices Paid Abroad:**
  - If importers prove a carbon price was paid in the country of origin, the number of CBAM certificates required may be reduced
  - The carbon price must be a verifiable monetary amount paid in a third country
  - Authorised Declarants can claim this reduction in their CBAM submission.

These measures aim to align the cost of imported carbon-intensive goods with the EU's carbon pricing rules, ensuring fair competition while promoting global emissions accountability.

CBAM - Transitional Period
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Review of CBAM reports: During the transitional period (1 October 2023 – 31 December 2025), compliance with CBAM is assessed through coordinated efforts by the European Commission and Member State authorities.

- The Commission reviews each reporting quarter and flags incomplete or suspicious submissions within three months after the final report is submitted.
- Competent authorities in Member States verify the data, monitor registered reporting declarants, and may initiate a correction procedure after 31 December 2025 for missing, incomplete, or incorrect reports.

An electronic CBAM Transitional Registry has been established to manage all submitted data. This platform enables secure communication and data exchange between the Commission, national authorities, customs, and declarants.

Penalties for Non-Compliance

- During the transitional period, fines range from €10 to €50 per tonne of unreported embedded emissions, based on default values published by the Commission.
- From 1 July 2024, default values could only be used for up to 20% of embedded emissions in complex goods. Importers must provide real emissions data for the remainder.
- Higher penalties apply if two consecutive reports are incomplete or incorrect, or if reporting failures last more than six months.

Looking Ahead to the Definitive Period (Starting 1 January 2026)

- Importers must surrender CBAM certificates to cover emissions. Failing to do so will result in penalties of €100 per tonne, adjusted annually for inflation.
- Offenders may face import bans or be publicly listed.
- Use of default values will be phased out and replaced by verified emissions or regional benchmarks established by the EU.

CBAM - Transitional Period

During the transitional period (1 October 2023 to 31 December 2025), importers of CBAM goods must comply with quarterly reporting obligations. The reporting responsibility lies with a designated Reporting Declarant, who may be the importer lodging the customs declaration, a person authorised to submit customs declarations, or an indirect customs representative acting on behalf of a non-EU importer.

Reporting Declarants must submit detailed quarterly reports through the CBAM Transitional Registry, a centralized electronic platform established by the EU. This registry facilitates data collection, verification, and secure communication between the European Commission, Member State authorities, customs offices, and declarants.

Reporting Requirements

Reporting Declarants must submit quarterly CBAM reports (starting January 2024), detailing the following elements:

1. Imported Goods

- Total quantity of CBAM goods imported
- CN code for each product type

2. Embedded Emissions

- Country of origin
- Installation of production and production route used
- Emissions data linked to the specific route and installation

3. Indirect Emissions (as defined in Annex IV)

- Electricity consumption during production
- Whether emissions reported are actual values or default values
- Emissions factor used
- Total indirect emissions calculated

4. Carbon Price Paid in the Country of Origin

- Type and form of carbon pricing mechanism (e.g., tax, ETS)
- Any rebates or compensation (e.g., free allocations) applicable
- Legal references for carbon pricing or rebates
- Product CN code, quantity of embedded emissions covered
- Monetary amount of carbon price and compensation

CBAM in the Definitive Period

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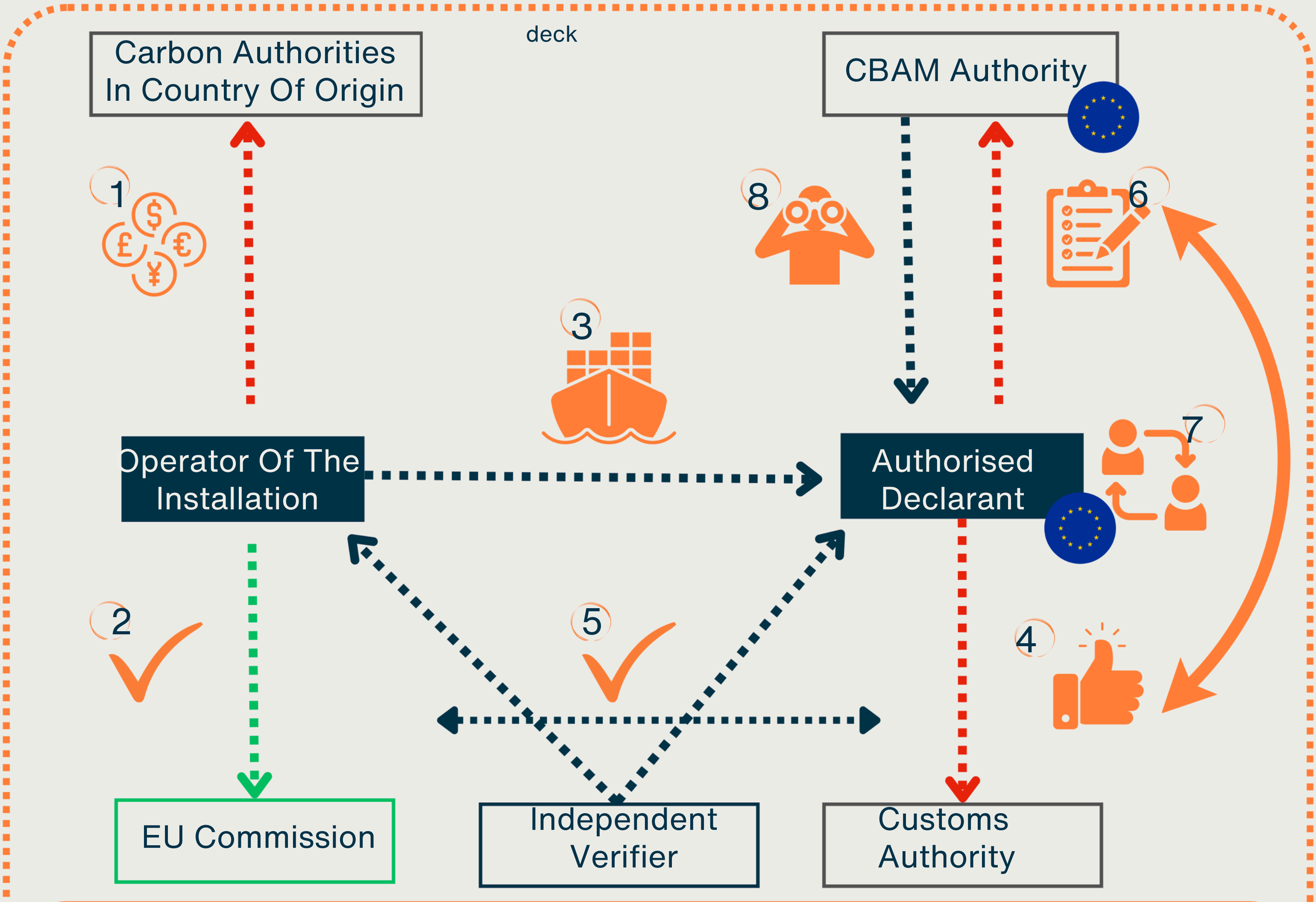


1.Carbon price paid in the origin country
2.Registration with EU Commission (optional)
3.EU Import of CBAM listed goods
4.Authorised Declarant identified towards customs authority
5.Independent Verifier to verify embedded emissions and carbon payments in country of origin that are declared in CBAM declaration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

Under the Carbon Border Adjustment Mechanism (CBAM), carbon-intensive products imported into the EU are becoming more expensive due to the added cost of CBAM certificates, potentially making them less competitive compared to lower-carbon alternatives. As a result, both importers and customers are likely to prefer products with lower embedded emissions.

EU Importers

- Must register as Authorised Declarants
- Responsible for purchasing CBAM certificates for each tonne of embedded carbon
- Must submit manual CBAM declarations, including emissions and any carbon price paid abroad
- CBAM does not apply to goods produced within the EU, or those from the EEA and Switzerland
- Certificate prices are based on the EU ETS carbon price

Non-EU Producers

- Indirectly affected as they must provide emissions data to EU importers
- Can help reduce certificate costs if they can prove a carbon price was paid in the country of origin
- May face competitive pressure if their products have high carbon intensity

EU Domestic Producers

- Do not pay CBAM but are already covered by the EU ETS
- CBAM creates a level playing field, ensuring imported goods bear similar carbon costs as EU-made products

Customers

- Likely to see price differences based on carbon intensity
- May shift demand toward low-emission products, influencing supply chains and production methods globally

CBAM shifts the carbon cost burden onto imported goods, pushing global supply chains toward cleaner production.

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?

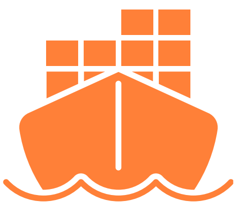
India reported **16.59%** of it's exports were to the EU in 2022 and **9.6%** of these were base metals and articles.

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_2	CO_2 (plus nitrous oxide for some fertiliser goods)	Only CO_2	CO_2 (plus perfluorocarbons (PFCs) for some aluminium goods)	Only CO_2	Only CO_2
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.)

The Commission's Plan to Support Exporters

In July 2025, the European Commission introduced its proposed framework to protect EU exporters from the potential downsides of CBAM and the ETS. This initiative is focused on energy-intensive, trade-exposed industries, where the risk of losing competitiveness is highest. The key elements of the plan include:

1. Exploring WTO-Compatible Export Rebates

The Commission is assessing whether carbon cost compensation for exports can be implemented in a way that complies with World Trade Organization (WTO) rules. This would function similarly to a rebate system, ensuring EU exporters do not face a double burden: paying for carbon at home and competing with lower-cost producers abroad.

2. Innovation and Decarbonisation Support

The EU is also investing in tools that help EU companies lower their carbon emissions, making them more competitive internationally. This includes access to:

- The Innovation Fund
- Green transition subsidies
- Industrial de-carbonisation programmes

Rather than relying entirely on financial relief, the Commission is emphasising that cleaner production is the long-term solution.

3. Phased Approach and Stakeholder Engagement

The Commission is committed to consulting industry stakeholders and Member States to design fair and legal export-support mechanisms. A phased rollout will give businesses time to adjust while contributing to a workable policy structure.

UK CBAM

In 2025, the UK government advanced its Carbon Border Adjustment Mechanism (CBAM) plans, publishing draft legislation for technical consultation and a policy update reflecting decisions made after the 2024 consultation. Set to begin on 1 January 2027, the UK CBAM will initially apply to imports of aluminium, cement, fertilisers, hydrogen, and iron and steel, excluding electricity, glass, and ceramics for now.

UK importers will need to submit annual CBAM returns for the 12-month period in 2027, with payments due by May 2028. The system will then move to quarterly returns starting in 2028. Emissions data must be verified by an accredited body, with default values used if data is unavailable. Scrap products will be excluded from the aluminium, iron, and steel sectors during the initial phase.

Penalties for non-compliance will mirror existing VAT rules, with possible additional sanctions for fraud. The UK has set up industry and international groups for coordination and will publish further guidance before implementation.

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