



EU Carbon Border Adjustment Mechanism (CBAM)

June 2023

CBAM: Levelling the cost of carbon wherever the product is produced

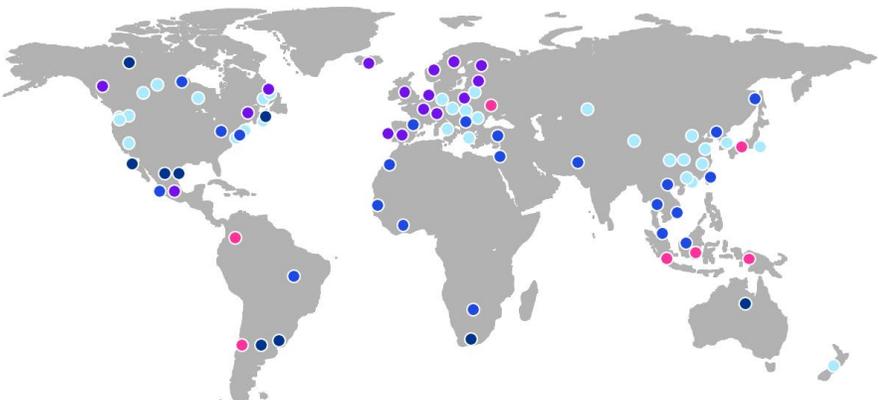
To achieve its target of becoming climate neutral by 2050, the European Union has:

1. Revised the current EU emission trading system (ETS) to allow for a faster reduction of available allowances, a phase-out of free allowances and an extension to the covered sectors.
2. Introduced a Carbon Border Adjustment Mechanism, which is a carbon price levied at the time of the importation, with a double goal:
 - To prevent carbon leakage: meaning the relocation of production to third countries with less ambitious environmental policies, or the increase of imports of carbon-intensive products into the EU
 - To encourage other countries to introduce similar carbon pricing policies.

CBAM will impose a carbon price at the time of the importation in Europe based on the CO2 emissions of imported goods. The CBAM price will be equal to EU ETS price.

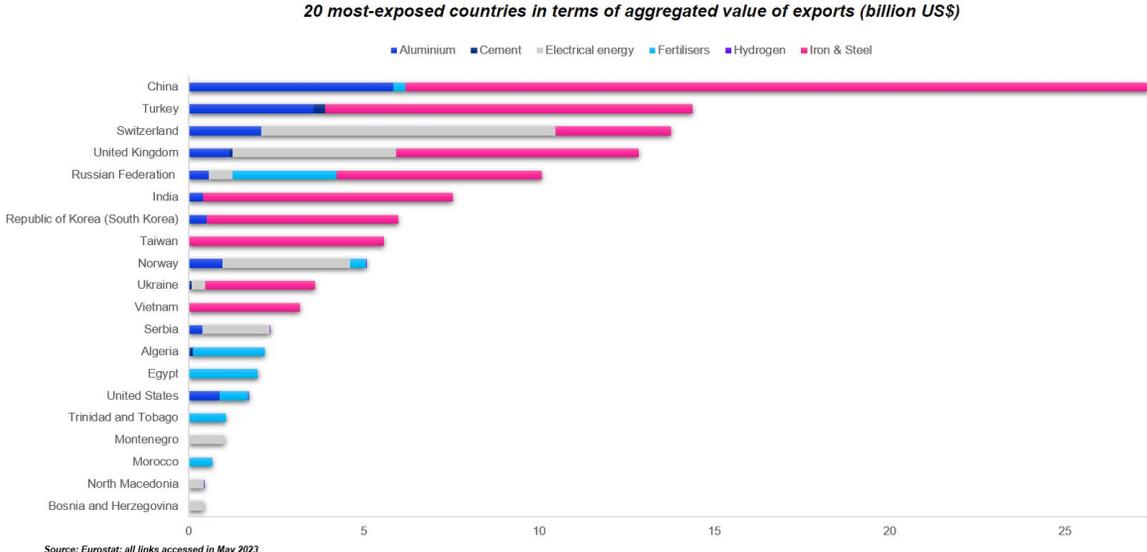


Summary map of regional, national and sub-national carbon pricing initiatives



The more the product is decarbonized the more it will be competitive in the European market.

Exports to the European Union by CBAM sector covered goods in 2022



Source: Carbon pricing dashboard, World Bank. Accessed 05/07/2022. https://carbonpricingdashboard.worldbank.org/map_data
 Note: Australia was added to take into account recent AUS announcements

Source: Eurostat, all links accessed in May 2023

CBAM design

CBAM imposes a charge on the embodied carbon content of certain goods upon their importation into the customs territory of the European Union that is equal to the charge imposed on domestic goods under the EU ETS. Adjustments will take into account any mandatory carbon prices effectively paid in the country of origin that is recognized by the EU, and free allowances provided under the EU ETS to EU facilities that are producing

CBAM initial scope:

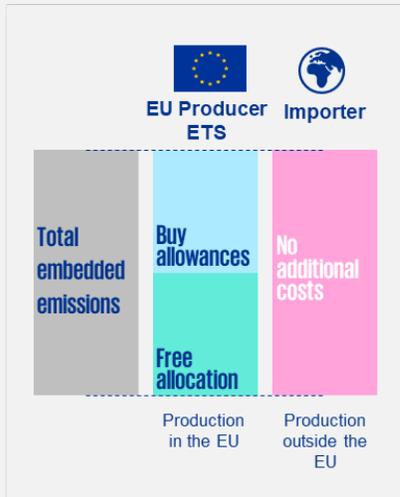
Electricity Iron & steel Cement Fertilisers Aluminium Hydrogen Certain precursors

- Direct emissions
- Indirect emissions included under certain conditions (e.g., indirect emissions from electricity consumed for the production of CBAM goods)

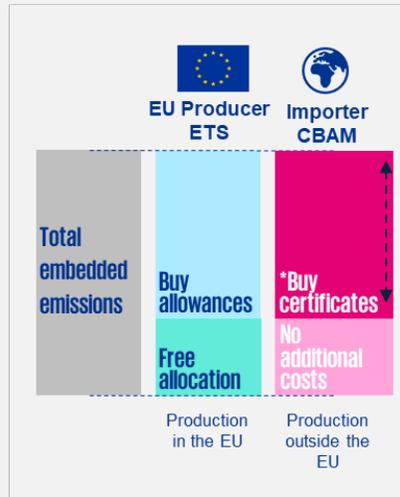
The intention is for all sectors covered by the ETS to be included in the CBAM scope by 2030

CBAM evolution:

Current State



Future State

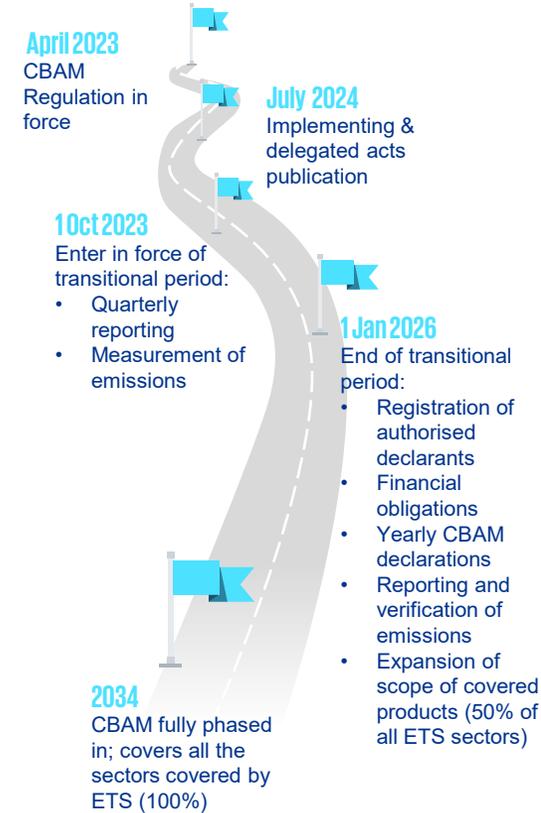


After 2036



* adjusted for any mandatory carbon prices effectively paid in the exporting country

Timeline:



CBAM impact:



Importers in the EU

EU companies engaged in international trade importing covered products:

- Financial and reporting obligations: *Register as authorised declarant; quarterly CBAM reports; annual CBAM declarations; purchase CBAM certificates*
- Higher import prices
- Increased prices of secondary goods
- Potential supply chain disruptions



Production outside the EU

Countries and territories outside of the customs territory of the EU, with the exception of Iceland, Norway, Switzerland, Liechtenstein and 5 other minor territories:

- Implement carbon accounting
- Independently verify embedded emissions
- New market request for decarbonized production



Future

- Extension of covered emissions to include scope 2 for all covered goods
- Extension of scope to include additional targeted industries and covered commodities.

Our approach to CBAM

KPMG has a network of global experts to assist companies in understanding the policy evolution in destination countries and optimize business and ESG strategies in the context of the rapidly changing global environmental regulatory landscape. Our Global Trade and Customs Practice provides specialized assistance in global trade and customs matters, including CBAM.

Alongside our global network of Trade and Customs experts, KPMG's ESG, sustainability and green taxes subject matter experts can assist with an initial assessment of the CBAM implications on businesses and if required, conduct a wider supply chain review. Our Monitoring, Reporting and Verification (MRV) teams consists of engineers and specialists on international environmental management standards including but not limited to ISO14044, ISO14064, ISO 14067, ISO37101, ISO50001, GHG Protocol, etc.

	Phase 1: Strategic assessment 	Phase 2: Monitoring and reporting of embedded emissions 	Phase 3: Verification of embedded emissions 	Phase 4: Compliance & reporting 
Objective	To effectively comply with CBAM obligations, organisations must determine whether, and the extent to which, they are impacted by CBAM.	MRV is one of the cornerstones of CBAM. Embedded emissions must be measured, reported and verified.	Embedded emissions on covered imported products must be verified by an accredited verifier or will be taxed on a default value.	Compliance with the provisions of the CBAM legislation includes applying to be an authorised declarant and adhering to quarterly and annual reporting requirements.
Our actions to support	<ul style="list-style-type: none"> — Impact assessment — Verification of Customs classification and origin — Economic impact calculation — Impact mitigation suggestions — Retroplanning — Readiness assessment — Supply chain analysis — Procurement and purchase agreement adaptation — Assistance in structuring CBAM services in the company 	<ul style="list-style-type: none"> — Greenhouse gas baseline assessment — Greenhouse gas quantification and verification — Risk identification and disclosure — Scenario analysis and impact assessments — Decarbonization strategy — Greenhouse gas emission reduction management, energy management and energy efficiency. 	<p>CBAM verification is delivered centrally via KPMG Cert (Germany).</p>	<ul style="list-style-type: none"> — Application for authorisation prior to import — Quarterly filing of CBAM report (transitional period) — Annual submission of CBAM declaration (from 1 January 2026) — Record keeping (until the end of 4th year after the year in which the CBAM declaration has been, or should have been, submitted)

KPMG has the specialized knowledge and global coverage necessary to help clients make informed decisions, minimize risks and take full advantage of opportunities arising from global decarbonization efforts. With our help, clients can play a strategic role in transforming their organization, transitioning to a low carbon operational structure, and driving sustainable future.

We assist clients with keeping abreast of CBAM developments, which should be anticipated and included in the business' long-term strategy as new products are added to the list of covered products.

We also assist clients navigate the indirect consequences of trade measures that may be introduced by countries outside the EU if the CBAM is seen by these countries as a trade barrier.

Your KPMG Belgium CBAM Specialists



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