

New rules on carbon taxation: Carbon Border Adjustment Mechanism (CBAM)

Carbon tax policies are a fundamental instrument used by governments to achieve their decarbonization commitments and reach their emission reduction targets. The Carbon Border Adjustment Mechanism (CBAM) that entered into force in the EU on 1 October 2023, marks a major step in the EU carbon pricing policy that will affect businesses, including Swiss-based companies, operating in the EU region.

The CBAM will introduce a carbon price on imports of specific products with a high risk of emissions to prevent the relocation of production to countries that have lower or lax carbon emission standards compared to the EU. The initial scope of the CBAM regulation is set to apply to imports of products into the EU from the following six emission intensive sectors: iron and steel, cement, fertilizer, aluminum, electricity and hydrogen. Indirect emissions under certain conditions, certain precursors, as well as downstream products of some categories (e.g. screws and bolts) are also included.

In practice, businesses importing CBAM-covered goods produced outside of the EU will have to assess the emissions embedded in their products and purchase CBAM certificates (equivalent to emission allowance certificates issued under the EU's ETS system). Businesses will also have to face registration and CBAM reporting obligations.

The scope of CBAM-covered goods and the arrangements for the gradual implementation of the mechanism could be further expanded or amended before the end of the transitional period (2023-2026). As a result, the number of companies affected by the CBAM could greatly increase in the future.

Steps for immediate action (based on CBAM measures applicable as of 1 October 2023):

While we are navigating the transitional phase of CBAM, businesses should prepare now to align their business model with the new requirements:

- **Supply chain assessment:** Undertake a review of the global supply chain and product categories to assess whether they are affected by CBAM regulations.
- **CBAM registration:** Determine which entity/entities will have to act as an Authorized Declarant for imports of CBAM-covered goods into the EU. These entities are subject to CBAM reporting requirements as of 1 October 2023.
- **Review data availability and implement processes for data collection and for emissions reporting:** Track what data on embedded emissions is available and whether these are relevant for CBAM reporting, assess the data required to be collected from third-party vendors and implement appropriate emissions calculation methodology for reporting.
- **CBAM reporting:** Define compliance processes and manage the submission of CBAM reports that are currently required on a quarterly basis, as of 1 October 2023.

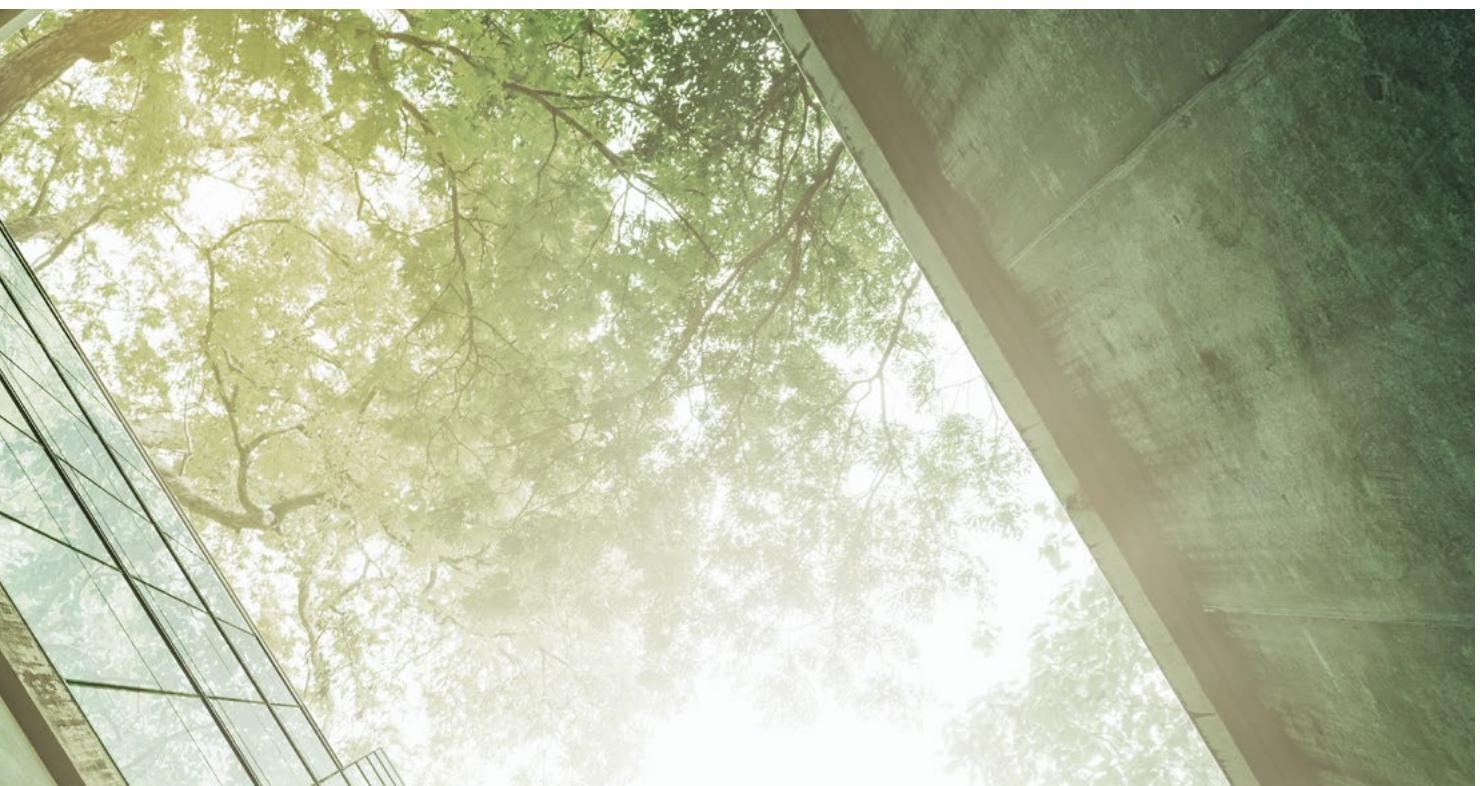
While the full scope of CBAM measures will be gradually implemented as of 2026, businesses will need to timely prepare for future developments, such as the extension of CBAM scope to new product categories and the financial impact on the cost of goods that will arise from the obligation to purchase CBAM certificates to cover the embedded emissions of their imports. Going forward, businesses should focus on analyzing carbon pricing measures as part of the tax planning strategy and consider possible optimizations to transform their global supply chain model.

Challenges

- Businesses will need to assess their supply chain operations to identify the product categories and trade flows of imports into the EU that may be impacted by CBAM regulations.
- Businesses responsible for importing CBAM-covered goods in the EU sourced from non EU production sites will need to ensure the collection of the relevant data on embedded emissions from their suppliers.
- Implementing a methodology for measuring and calculating emissions embedded in covered products according to CBAM standards could prove rather challenging if production is spread across different jurisdictions with varying carbon tax and CO2 emissions policies.
- Businesses must scrutinize the processes required to monitor the emissions performance of their supply chain and verify their emissions methodology and the quality of available data required for CBAM reporting.
- Besides observing compliance and reporting obligations, companies must consider the impact of emission allowances as part of their production costs and ensure the resilience of their pricing model to the new requirements.

How KPMG can help

- Perform readiness workshops to increase business awareness of CBAM.
- Support businesses to assess potential impacts of CBAM across their supply chain operations.
- Support businesses with technology-enabled, automated solutions and tools for CBAM assessment and reporting.
- Verify emissions measurement standards applied to calculate embedded emissions in accordance with CBAM.
- Review availability and quality of the import data required for CBAM reporting purposes.
- Assist companies integrate CBAM requirements in their contracting processes.
- Tax planning and supply chain transformation reviews to align with CBAM requirements and optimize supply chain capabilities.
- Evaluate CBAM risks in due diligence processes.



Your benefits

- Global team of tax, customs, and regulatory experts to help you understand CBAM developments and explore opportunities to manage or mitigate exposure
- Data-driven approach to accurately track and measure exposure to carbon pricing and adjustment measures
- Advisory support with impact measurement and verification processes of carbon emissions
- Comprehensive, value-based strategic tax planning to increase carbon performance of the supply chains

Contacts

KPMG AG

Badenerstrasse 172
PO Box
8036 Zurich

kpmg.ch/esg-hub



Elizabeth Barendregt

Partner, Indirect Tax

+41 79 440 01 25
ebarendregt@kpmg.com



Konstantina Tsiorsta

Senior Manager, Indirect Tax

+41 78 739 36 48
ktsiorsta@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. The scope of any potential collaboration with audit clients is defined by regulatory requirements governing auditor independence. If you would like to know more about how KPMG AG processes personal data, please read our Privacy Policy, which you can find on our homepage at www.kpmg.ch.

© 2023 KPMG AG, a Swiss corporation, is a subsidiary of KPMG Holding AG, which is a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.