

Carbon Border Adjustment Mechanism (CBAM)

Reporting obligation starts on 1 October 2023



The European emissions trading system is one of the most important instruments of climate protection and is being complemented by a Carbon Border Adjustment Mechanism for goods with high CO₂ emissions that are imported from non-EU countries. Affected companies will be required to meet the first reporting obligations as from the autumn of 2023. The most important points at a glance:

“Fit for 55” is a legislative package that provides important incentives for the EU to become climate-neutral by 2050 and reduce CO₂ emissions by 55 percent by 2030 as compared to 1990. As part of this, the Carbon Border Adjustment Mechanism (CBAM) is intended to counteract the shift of greenhouse gas emissions to countries with no or fewer ambitions to fight CO₂ emissions (carbon leakage risk). In future, the CO₂ emissions of goods that are imported into the EU must be determined and certificates must be acquired for each tonne of CO₂ emissions.

Particularly CO₂-intensive goods are affected

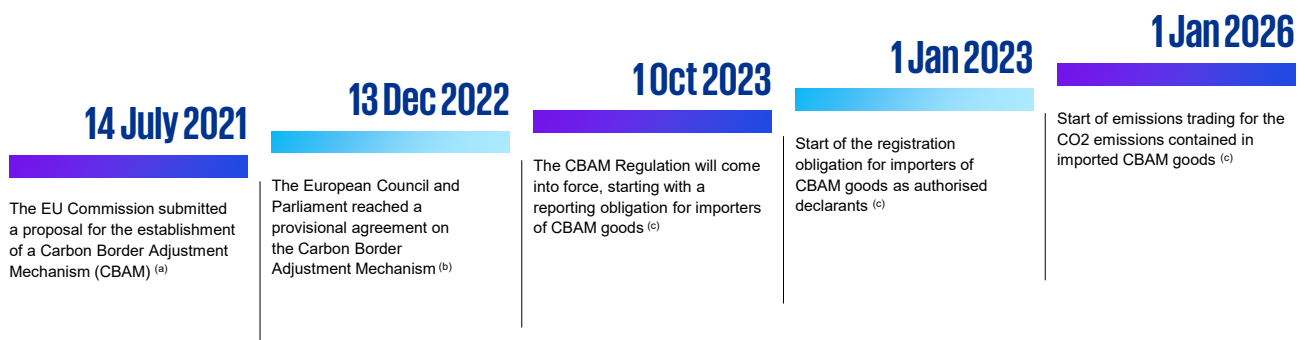
The goods affected by the CBAM initially include cement, electricity, fertiliser, aluminium as well as iron and steel, hydrogen and a number of upstream and downstream primary products (mainly made of iron, steel and aluminium). According to the EU, the scope is to be expanded to all sectors that are

subject to the EU emissions trading system by 2030. The scope of the CBAM will then include all industrial goods.

CBAM implementation to start with reporting obligation in October 2023

While the trading in CBAM certificates is not scheduled to start until 1 January 2026, importing companies will already be subject to a reporting obligation as from 1 October 2023. From this date onwards, importers must determine and document direct and indirect emissions that arise in the context of the production process of the imported goods.

Importing companies are obligated as part of a quarterly CBAM report to provide information on the quantity of CBAM goods they imported and their direct and indirect CO₂ emissions (initially only for cement, electricity and fertiliser).



Note: (a) EU Commission COM(2021) 564 final 2021/0214 (COD) dated 14/7/2021

(b) EU climate action: provisional agreement reached on Carbon Border Adjustment Mechanism (CBAM) – Consilium (europa.eu)

(c) EU Parliament, dated 8/2/2023 2021/0214 (COD): Provisional agreement resulting from interinstitutional negotiations

Source: KPMG in Germany, 2023

Importers will be subject to a registration obligation as from 1 January 2025. From this date onwards, only registered declarants will be permitted to import CBAM goods.

When certificate trading comes into effect on 1 January 2026, importing companies will be obligated to acquire a sufficient number of CBAM certificates for imported CO2 emissions during the year. A final comparison of the amount of imported CO2 emissions against the acquired CBAM certificates is drawn as part of an annual CBAM declaration. Importers that acquired an insufficient number of certificates will face financial sanctions.

Next steps

Following agreement by the EU legislators on the final wording of the legislation in December 2022, the text must now be formally approved by the EU Parliament and the EU Council before the CBAM Regulation is expected to come into effect in the second quarter of 2023.

Later on, the EU Commission will prepare delegated regulations which will specify standards for the determination of direct and indirect CO2 emissions and default values for CO2 emissions, for example.

The importers are to be able to draw upon the default values in emergency situations where the calculation of CO2 emissions on the basis of actual values is not possible or they are not available in a suitable form. It is therefore recommended that importers approach their suppliers in good time to enquire about the specific actual values for their own CO2 calculation. According to the CBAM regulation, only actual values whose accuracy has been verified by certified inspection authorities may be used. In light of the very short time frame until October 2023, it is imperative that affected companies prepare for the new compliance requirements in order to avoid sanctions.

Ideally positioned for you

Our experts in the areas of customs and indirect taxes will be happy to assist you with the preparation and compliant implementation of the CBAM regulations in good time. Talk to us.

Some or all of the services described here may not be permitted for KPMG audit clients and their affiliated companies.

Contact

KPMG AG
Wirtschaftsprüfungsgesellschaft



Mario Urso
Partner, Tax
Head of Trade & Customs
M +49 171 3130960
murso@kpmg.com



Stephan Freismuth
Director, Tax
Indirect Tax Services
M +49 175 1188823
sfreismuth@kpmg.com

www.kpmg.de

www.kpmg.de/socialmedia



KPMG Direct Services – our online offer for you
kpmg.de/directservices



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.

© 2023 KPMG AG Wirtschaftsprüfungsgesellschaft, a corporation under German law and 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. Printed in Germany. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.