



Carbon Border Adjustment Mechanism (CBAM)

Tax Alert



October 2023

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What is the Carbon Border Adjustment Mechanism?

16 May saw the publication in the OJEU of [Regulation \(EU\) 2023/956](#) of the European Parliament and of the Council, establishing a carbon border adjustment mechanism (CBAM).

The **CBAM** is a tool that imposes a surcharge (via the purchase of CBAM certificates) on the importation of certain greenhouse gas emissions-intensive goods with a threefold objective:

- (i) to prevent the relocation of European companies to territories with less stringent environmental legislation and acquisitions from suppliers based in such territories;
- (ii) to ensure that European operators compete on a level playing field with respect to the costs they bear for their emissions; and
- (iii) to encourage more sustainable production models that are aligned with European Union (EU) climate policies.

Goods affected

Initially, the CBAM will apply to the importation of the emissions-intensive goods listed in the annexes to the regulation and identified by their CN code. These can be grouped into the following sectors:

- Electricity
- Iron and steel
- Cement
- Aluminium
- Fertilisers
- Hydrogen

However, the scope of this adjustment mechanism is expected to be gradually extended to a wide range of products and industries (automotive, chemicals, machinery, textiles, etc.).

Transitional period

The regulation provides for a transitional implementation period, running from 1 October 2023 to 31 December 2025, during which EU importers of the above products must declare the volume of direct and **indirect greenhouse gas emissions embedded** in such products on a quarterly basis and, where appropriate, the carbon price payable for those emissions in the country of manufacture.

Affected companies will not be required to pay the surcharge during the transitional period, but they will be subject to formal and registry obligations, as well as

finances in the event of non-compliance (from Euros 10 to 50 per tonne of undeclared emissions). **The first report must be submitted no later than 31 January 2024 in respect of any goods imported during the fourth quarter of 2023.**

The Commission has recently published its [implementing regulation](#) as regards the CBAM during the transitional period, which, among other things, sets out the methodology for calculating emissions that will be subject to oversight by accredited verifiers. Given the limited time available to operators, certain alternative methods have been set in place on a transitional basis to facilitate compliance with the reporting obligations.

Once the transitional period ends (i.e. as of 1 January 2026) the financial adjustment under the CBAM must be paid by purchasing the relevant certificates for an amount equal to the price that would have been paid had the goods been produced in line with the environmental legislation applicable in the EU and, in particular, the emission allowance trading scheme for installations located in the EU.

Conclusion

Aside from its potential financial impact, the CBAM represents a global challenge for foreign trade. In many cases, it will not be easy for companies to calculate the emissions embedded in imported products using the complex methodologies provided for in the regulations. The implementation of this measure will have an impact on supply chains and on the customs structure that companies will have to adopt to ensure that their products remain competitive in international markets. Moreover, in order to comply with the CBAM reporting obligations, companies must ensure that all of their suppliers located in third countries have approved emissions monitoring and registration systems in place.

How can we help?

Thanks to our extensive network of offices around the world, KPMG Abogados offers a comprehensive and multidisciplinary service to help operators comply with the CBAM obligations, bearing in mind the specific features of each operation, including impact assessment, calculation of embedded emissions, preparation of reports, customs strategy, environmental strategy and supply chain.

Contacts

Juan José Blanco
Partner
KPMG Abogados
Tel. 91 456 34 00
jblanco@kpmg.es

Manuel Gil Pérez Carro
Director
KPMG Abogados
Tel. 91 456 34 00
manuelgil@kpmg.es

KPMG offices in Spain

A Coruña

Calle de la Fama, 1
15001 A Coruña
Tel.: 981 21 82 41
Fax: 981 20 02 03

Alicante

Edificio Oficentro
Avda. Maisonnave, 19
03003 Alicante
Tel: 965 92 07 22
Fax: 965 22 75 00

Barcelona

Torre Realia
Plaça de Europa, 41
08908 L'Hospitalet de Llobregat
Barcelona
Tel: 932 53 29 00
Fax: 932 80 49 16

Bilbao

Torre Iberdrola
Plaza Euskadi, 5
48009 Bilbao
Tel: 944 79 73 00
Fax: 944 15 29 67

Girona

Edifici Sèquia
Sèquia, 11
17001 Girona
Tel: 972 22 01 20
Fax: 972 22 22 45

Las Palmas de Gran Canaria

Edificio Saphir
C/Triana, 116 – 2º
35002 Las Palmas de Gran Canaria
Tel: 928 33 23 04
Fax: 928 31 91 92

Madrid

Torre de Cristal
Paseo de la Castellana, 259 C
28046 Madrid
Tel: 91 456 34 00
Fax: 91 456 59 39

Malaga

Marqués de Larios, 3
29005 Málaga
Tel: 952 61 14 60
Fax: 952 30 53 42

Oviedo

Ventura Rodríguez, 2
33004 Oviedo
Tel: 985 27 69 28
Fax: 985 27 49 54

Palma de Mallorca

Edificio Reina Constanza
Calle de Porto Pi, 8
07015 Palma de Mallorca
Tel: 971 72 16 01
Fax: 971 72 58 09

Pamplona

Edificio Iruña Park
Arcadio M. Larraona, 1
31008 Pamplona
Tel: 948 17 14 08
Fax: 948 17 35 31

San Sebastián

Avenida de la Libertad, 17-19
20004 San Sebastián
Tel: 943 42 22 50
Fax: 943 42 42 62

Seville

Avda. de la Palmera, 28
41012 Sevilla
Tel: 954 93 46 46
Fax: 954 64 70 78

Valencia

Edificio Mapfre
Paseo de la Alameda, 35, planta 2
46023 Valencia
Tel: 963 53 40 92
Fax: 963 51 27 29

Vigo

Arenal, 18
36201 Vigo
Tel: 986 22 85 05
Fax: 986 43 85 65

Zaragoza

Centro Empresarial de Aragón
Avda. Gómez Laguna, 25
50009 Zaragoza
Tel: 976 45 81 33
Fax: 976 75 48 96

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