



KPMG report: Rules for transitional phase of EU carbon border adjustment mechanism adopted

The European Union's (EU) new regulation establishing a carbon border adjustment mechanism (CBAM) entered into force on 17 May 2023. Currently, the [CBAM regulation](#) applies to specified imports of goods (identified by their CN code) into the EU within the following six emissions-intensive sectors:

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

Some breathing space

The CBAM has a transitional period that commences on 1 October 2023 and runs until 31 December 2025. The purpose of the transitional period is to collect data that will help fine-tune the shape of the CBAM for its definitive phase from 1 January 2026. During the transitional period, the obligations of the importer would be limited to reporting obligations only, without paying any financial adjustment.

Each importer, having imported CBAM goods during a given quarter of a calendar year must, for that quarter, submit a CBAM report containing information on the imported quantity of CBAM goods, the direct and indirect emissions embedded therein, as well as the carbon price due in the country of production.

The rules explained

On 17 August 2023, the European Commission adopted the rules governing the implementation of the CBAM during its transition phase – the *Commission Implementing Regulation* regarding the transitional period reporting obligations. This regulation sets out rules in respect of the following:

- The **CBAM reporting data requirements**, which are to include information on, *inter alia*, the:
 - Quantity of imports per customs procedure
 - Combined Nomenclature (CN) codes of goods
 - Country of origin
 - Installation where goods were produced
 - Production methods and qualifying parameters
 - For steel goods, the ID of the steel mill for the batch of steel goods
 - Direct and indirect embedded emissions pertaining to the goods imported (at both a product and installation level)
 - Carbon price due in the country of origin, including reference to the legal act governing the carbon price and the quantity of emissions covered by any free allocations, rebates, or other forms of compensation.
- The alternative methodologies for the **calculation of embedded emissions**:

EU Methodology: The embedded emissions of CBAM goods are to be determined using either a calculation-based approach (where emissions from source streams are determined based on activity data) or a measurement-based approach (consisting of a continuous measurement of the concentration of the relevant greenhouse gases themselves), dubbed the “EU methodology”.

To provide sufficient flexibility for small operators in third countries, estimated values may be reported for the production steps in installations whose contribution to direct emissions do not exceed 20% of the total embedded emissions of the imported goods.

It is important to note that, as of **1 January 2025**, only the EU methodology will be accepted.

Acceptable Alternative Methodologies – until 31 December 2024: In addition to the above methodology, and to provide for some flexibility during the first 15 months of implementation, companies will have the choice, **until 31 December 2024**, of reporting in one of three alternative ways, consistent with:

- A *carbon pricing scheme* where the installation is located; or
- A *compulsory emission monitoring scheme* where the installation is located; or
- An *emission monitoring scheme* at the installation which *can include verification by an accredited verifier*.

Other non-prescribed methodologies – until 31 July 2024: A further alternative is provided for reporting declarants who cannot obtain the requisite information that would allow them to report under one of the methodologies listed above. **Until 31 July 2024**, reporting declarants may use other non-prescribed methodologies for determining the emissions, including default values made available and published by the Commission.

- **CBAM reports:**

Quarterly reports are to be submitted in the *CBAM Transitional Registry* no later than one month after the end of a quarter, with the first CBAM report due by 31 January 2024. Modifications may be made to the reports until two months after the end of the relevant reporting quarter (for the first two reporting periods, CBAM reports may be modified until the submission deadline of the third CBAM report).

- **Penalties:**

Penalties will be imposed if reporting declarants haven’t taken necessary steps to comply with the obligations to submit a quarterly CBAM report or correct an incorrect or incomplete CBAM report.

The penalties will range between EUR 10 and EUR 50 for each tonne of unreported embedded emissions, increasing in accordance with the European index of consumer prices. Higher penalties will apply when more than two incomplete or incorrect reports have been submitted in a row, or the duration of the failure to report exceeds 6 months.

- **Administration:**

A *CBAM Transitional Registry*, which is a standardised electronic database containing common data elements for reporting in the transitional period, will enable information exchange between the European Commission, the Member State Competent Authorities, customs authorities of the Member States and the reporting declarants.

A *CBAM Trader Portal* will provide a unique entry point to the CBAM Transitional Registry for reporting declarants, whereby they will receive notifications related to their CBAM compliance obligations and are to submit CBAM Reports. The *CBAM Trader Portal* can be used to store information about third country installations and embedded emissions for later re-use.

What’s next?

Businesses need to start preparing to adapt to the upcoming changes that are almost upon us. Amongst the most urgent for EU companies to align themselves with the CBAM regulation is the adherence to reporting obligations from 1 October 2023. For businesses to achieve a smooth roll-over in the upcoming transition period and minimize the disruption to their business model and costs, all EU importers of initial covered products must be ready for these transitional period reporting obligations.

Many EU-based corporates will be monitoring the emissions performance of their supply chain to meet the monitoring, reporting and verification standards now expected of most corporate entities. However, few companies will know in what country the actual emissions, relating to the development of their goods, were generated. Companies that consume products covered within the scope of the EU ETS, (e.g., manufacturing) could face significant additional cost pass-through from existing suppliers when the CBAM is implemented, due to the significant emissions occurring in geographies without

commensurate low carbon policies and the emissions associated with transport of the goods to the EU. Corporates should ensure that they understand the geographical composition and source of their emissions to enable them to undertake a supply chain review, where required, making conscious cost versus carbon trade-offs, and ensuring the resilience of their pricing model to the proposed changes.

Entities that are already either voluntarily reporting on, or are mandated by legislation (e.g., emissions trading systems and carbon tax regulations) to report on their scope 1 and 2 emissions, are better positioned to provide the requisite emission data required by the CBAM Regulation than businesses that do not have any measurement systems in place. As such, meeting the CBAM carbon accounting compliance requirements may place a significant burden on exporters into the EU of covered goods to implement systems that track and record direct and indirect embedded emission data.

Additionally, non-EU companies who are already measuring and reporting on emissions may need to adapt their measurement methodologies to comply with the EU Methodology from 1 January 2025.

As the financial implications of CBAM (which take effect from 1 January 2026) may affect the prices of imported covered goods, longer-term challenges posed by CBAM includes companies needing to assess their competitiveness based on a new metric: the carbon content of their products. Third country producers will face greater pressures to lower emissions, because importers will favor goods that have a lower carbon content as it will be less expensive for them.

How KPMG can help

The EU CBAM is associated with significant increases in climate ambition within the European Union, with implications for the future carbon price pathway and the number of free permits received by European producers: it is important to understand the impact of these measures together for your industry.

KPMG assists our clients in getting ready for the compliance carbon markets, such as Emissions Trading Systems and CBAM, mitigating negative impacts and ensuring compliance with the requirements. We also provide advisory services in relation to carbon management improvements including setting up or improving Monitoring, Reporting and Verification (MRV).

Whether based within the EU, or trading with the EU, we encourage companies to consider their own decarbonization strategies and carbon management improvements, whether it be to ensure that they are prepared for compliance with upcoming legislation, or to ensure that operations are future-proofed for medium- and long-term global developments.

KPMG ESG professionals can assist you with a climate risk and decarbonization strategy that includes helping you gain strategic foresight and operational value in your decarbonization journey, from emissions measurement to implementation, monitoring and reporting. This is supported by an array of options, such as renewable energy procurement, energy efficiency, circular economy, and supply chain management, and includes assessing and understanding the underlying tax and legal impacts.

Through KPMG Climate Risk Advisory services, we can help you measure, quantify, and assess risks and opportunities across supply chains under a wide range of scenarios and understand the impact on business performance.

KPMG member firms also advise clients on the financing and investment aspects of the low-carbon agenda, including fundraising and identifying investment partners and merger and acquisition opportunities, which consist of both debt and equity approaches.

KPMG Cert GmbH is an accredited verification body with many years of experience in EU-ETS verification services.

KPMG Carbon Services Limited (KCS) in China advises clients on carbon, energy, biodiversity, and other environmental areas from engineering / ISO standards perspectives.

Some, or all of, the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

For more information on CBAM and the transitional period reporting requirements, or for assistance with impact assessments, compliance guidance or emissions monitoring and reporting, please contact one of our CBAM experts.



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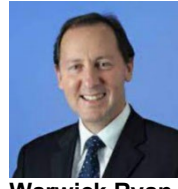
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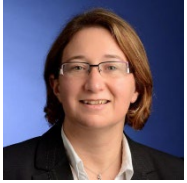
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