

Alert | Regulatory & Compliance



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CBAM Reporting Requirement Begins Oct. 1, 2023

The Carbon Border Adjustment Mechanism (CBAM) is the European regulation that imposes a reporting obligation and a carbon tax on EU imports of certain goods in order to reduce carbon emissions. See our prior [GT Alert](#).

The CBAM Regulation officially took effect May 17, 2023. It will apply in phases starting Oct. 1, 2023, and will be fully effective Jan. 1, 2026.

The requirements of and timing for CBAM are now clearer, allowing companies to continue their preparations for CBAM.

Scope

CBAM will initially apply to imports into the EU of the following goods, and processed products of those goods, as listed in Annex I of CBAM: (a) cement, (b) electricity, (c) fertilizers (including, for example, ammonia), (d) cast iron, iron and steel, (e) aluminum and (f) chemicals (although for now only hydrogen is listed in the latter category).

Go-To Guide:

- EU CBAM Regulation officially took effect May 17, 2023
- Reporting requirements start Oct. 1, 2023
- CBAM certificates mandatory from 2026

Reporting Requirement Begins Oct. 1, 2023

The CBAM transition phase applies as of Oct. 1. Under a European implementing regulation adopted in August, companies must report for the first time by the end of January 2024. Failure to do so will result in proposed fines of between €10 and €50 for each ton of unreported embedded emissions. The actual fine will be determined based on specific factors and is expected to increase if the duration of non-reporting exceeds six months.

In principle, the reporting obligation rests on the importer within the EU of the CBAM goods. When the importer is a U.S. company with a subsidiary in the EU, the reporting obligations are more complicated due to the lack of supply chain visibility. In addition, reporting may be complicated if manufacturing and products are sourced in Asia.

The importer can transfer the reporting obligation to an indirect customs representative (e.g., the transport company) with consent. In addition, the reporting obligation applies directly to the indirect customs representative when the importer is located outside the EU.

CBAM Certificates Mandatory in 2026

Once CBAM is fully effective starting Jan. 1, 2026, both EU and non-EU companies importing goods into the EU covered by CBAM will be required to purchase certificates. The price of CBAM certificates is calculated based on the weekly average auction price of EU emissions trading system allowances, expressed in €/ton of carbon dioxide emitted. If an EU importer can prove, based on verified information from a third-country producer, that a carbon price has already been paid during the production of the imported good, the corresponding amount can be deducted from the final invoice.

The financial impact of CBAM is expected to be significant. It has been calculated, for example, that EU importers will face additional costs of about €2 billion per year by 2030, when the carbon price in the EU is expected to exceed €100 per ton, compared to about €82 per ton today. Based on these calculations, the price of EU-imported iron and steel from India could rise by more than 30% by 2032.

Moreover, because CBAM's scope is expected to include more goods in the future, inflationary pressures may eventually be felt more broadly.

Key Takeaways for Companies

To comply with the upcoming reporting requirements, companies should act now and consider taking the following steps:

- reviewing and modifying existing agreements with suppliers in order to obtain all relevant CBAM-related information and provide greater visibility into supply chains;
- contractually transferring the reporting obligation to the transportation company, if required, and contractually hedging risks (e.g., with respect to untimely or inaccurate reporting);
- arranging access to the CBAM registry/portal;
- reviewing, finalizing, and submitting quarterly reports;
- and creating and implementing business processes in order to adhere to CBAM compliance.

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