Carbon Border Adjustment Mechanism

2021/0214(COD) - 16/05/2023 - Final act

PURPOSE: to establish a carbon border adjustment mechanism (CBAM) with a view to preventing the risk of carbon leakage and thereby reducing global carbon emissions.

LEGISLATIVE ACT: Regulation (EU) 2023/956 of the European Parliament and of the Council establishing a border carbon adjustment mechanism.

CONTENT: the Regulation establishes a border carbon adjustment mechanism (BCA) for imports of products in carbon-intensive industries.

Objective

The objective of the CBAM is to ensure - in full compliance with international trade rules - that the EU's efforts to reduce greenhouse gas emissions are not neutralised by an increase in emissions outside its borders resulting from the relocation of production to countries whose policies to combat climate change are less ambitious than those of the EU, or from an increase in imports of more carbon-intensive products.

The CBAM aims to **prevent the risk of carbon leakage**, thereby reducing global carbon emissions and supporting the objectives of the Paris Agreement, also by introducing incentives for third-country operators to reduce their emissions.

During the **transitional period from 1 October 2023 until 31 December 2025**, the obligations of the importer under this Regulation will be limited to the reporting obligations

Enlarged scope of CBAM

CBAM will cover **iron and steel, cement, aluminium, fertilisers and electricity and will be extended to hydrogen, indirect emissions** under certain conditions, certain precursors as well as to some downstream products such as screws and bolts and similar articles of iron or steel.

CBAM will be **phased in gradually**, in parallel to a phasing out of the free allowances, once it begins under the revised EU ETS for the sectors concerned. Free allowances for sectors covered by the Carbon Border Adjustment Mechanism will be phased out over a nine-year period between 2026 and 2034.

Role of the European Commission

The governance of the CBAM should be more centralised, with the Commission being responsible for most tasks. In particular, the Commission should:

- address practices of circumvention to reduce the risk of carbon leakage;

- assist competent authorities in carrying out their functions and duties under the Regulation;

- ensure coordination, issuing guidelines and supporting the exchange of best practice;

- manage the CBAM registry containing data on the authorised CBAM declarants, operators and installations in third countries;

- facilitate the exchange of information and cooperation between competent authorities, and between these authorities and the Commission;

- carry out risk-based controls and review the content of CBAM declarations accordingly;

- make available to the competent authorities its own calculations regarding the CBAM certificates to be surrendered, on the basis of its review of the CBAM declarations.

Member States will impose **penalties** for infringements of this Regulation and ensure that such penalties are enforced.

Commission review and report

The Commission will, in consultation with relevant stakeholders, gather the necessary information with a view to extending the scope of the Regulation and developing methods for calculating embodied emissions based on environmental footprinting methodologies.

The Commission, in consultation with relevant stakeholders, shall collect the information necessary with a view to extending the scope of this Regulation as indicated in and pursuant to paragraph 2, point (a), and to developing methods of calculating embedded emissions based on environmental footprint methods.

Before the end of the transitional period from 1 October 2023 to 31 December 2025, the Commission will assess whether the scope can be extended to other goods at risk of carbon leakage, in particular organic chemicals and polymers, with a view to including all goods covered by the ETS by 2030.

It will also assess: (i) the calculation method for indirect emissions and the possibility of including more downstream products, (ii) the progress made in international discussions on climate action, (iii) the governance system, as well as (iv) the impact of the regulation on goods imported from developing countries that are of special interest to the least developed countries identified by the United Nations (LDCs).

ENTRY INTO FORCE: 17.5.2023.

APPLICATION: from 1.10.2023. Certain provisions will apply from 31.12.2024 and 1.1.2026.