

Update Carbon Border Adjustment Mechanism (CBAM): Provisional agreement reached

On December 13, 2022 negotiators of the EU Council and Parliament reached a provisional agreement on the [Carbon Border Adjustment Mechanism \(CBAM\)](#).

Intro

CBAM is part of the [EU Green Deal / Fit for 55 package](#), which is the EU's plan to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. CBAM targets imports of products in carbon-intensive industries. The objective of CBAM is to, in compliance with international trade rules, prevent the EU's greenhouse gas emissions reduction efforts being offset by increasing emissions outside its borders through the relocation of production to non-EU countries (where policies to fight climate change are less ambitious than those of the EU) or by importing more carbon-intensive products. CBAM is designed to function in parallel with the EU's Emissions Trading System (EU ETS), to mirror and complement its actions on imported goods.

Summary of provisional agreement

- EU CBAM will be gradually implemented. It will begin operating **as of October 1, 2023** with a transitional phase, during which affected organizations/importers will only be required to fulfill reporting obligations. The aim of this first phase is to collect data. As of 2026, financial obligations will take effect and importers will have to start purchasing CBAM certificates. These will be phased in gradually, in parallel with a phasing out of the free allowances under EU ETS. The phasing out of free allowances for CBAM sectors still has to be agreed as part of the ongoing EU ETS negotiations.
- The **scope of CBAM** covers imports of goods from six emissions-intensive sectors: electricity, iron and steel, cement, aluminum, fertilizers and hydrogen. Indirect emissions (under certain conditions), certain precursors, as well as some downstream products (such as screws and bolts and similar articles of iron or steel) also fall under the scope of CBAM. A detailed list of covered products will become available later.
- Before the end of the transitional period (i.e. before 2026), the CBAM will be reviewed to assess whether to **extend the scope** to other goods such as organic chemicals and polymers, with the intention that all goods covered by the EU ETS will fall under the scope of CBAM by 2030. The review will also include an assessment of the methodology for indirect emissions and the possibility to include more downstream products.
- The **governance of CBAM** will now be more centralized, with the Commission in charge of most of the tasks.

Next steps

This provisional deal is dependent on an agreement on the reform of the EU Emissions Trading System. The EU Parliament and Council will have to formally approve the agreement before the new law can take effect. The new law will take effect 20 days after its publication in the EU Official Journal.

Feel free to contact us if you would like to know more about the impact of this agreement.

KPMG Meijburg & Co
December 14, 2022

The information contained in this memorandum is of a general nature and does not address the specific 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.