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EU Carbon Border Adjustment Mechanism (CBAM) – what companies need to do

What is CBAM?

Background

EU Emission Trading System (ETS)

- Aims to lower emissions by investing in innovative technologies, alternative and efficient energy sources
 - The EU-ETS sets a cap on the quantity of greenhouse gas emissions;
 - At the end of each compliance cycle
 - if the emissions of an EU-ETS participant exceed the allowance, they must buy Emission allowance;
 - Firms that have reduced their emissions have surplus Emission allowance

Carbon leakage led to introduction of CBAM

EU-based companies started relocating carbon-intensive production to countries with weaker climate policies.

CBAM is aligned with EU's climate goals:

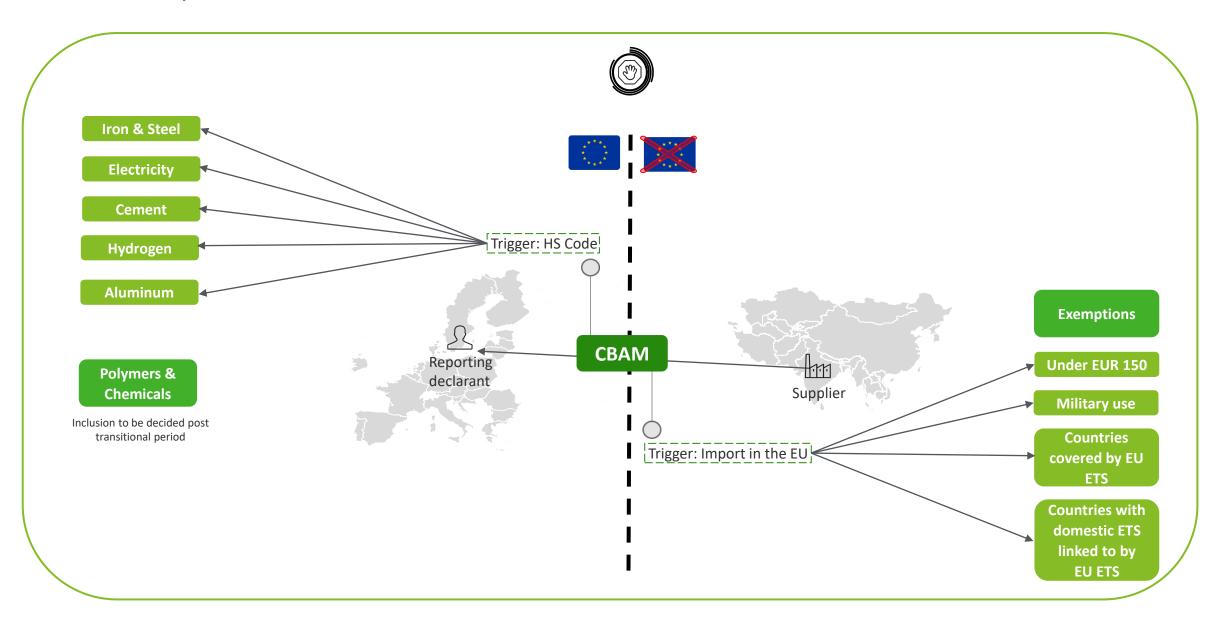
- The EU seeks to achieve 55% lower carbon emissions by 2030 compared to 1990 levels;
- Target is to be carbon-neutral by 2050



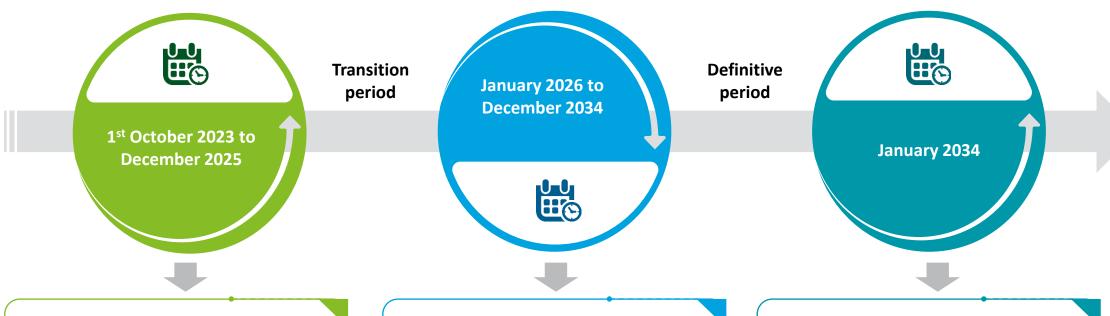


- CBAM seeks to protect EU imports from carbon leakage by putting a price on the carbon emitted during the production of carbon intensive goods imported into the EU;
- Carbon price of imports into the EU is equivalent to the carbon price of domestic production
- Help in cleaner industrial production using low-carbon technologies such as renewable power sources in the non-EU countries.

CBAM – A snapshot



Phased Implementation Plan



- Emphasis on collection and reporting of data
- Report direct and indirect emissions embedded in products falling under the sectors covered within CBAM scope.
- No Carbon Border tax/ financial outflow
- Penalties for non-compliand

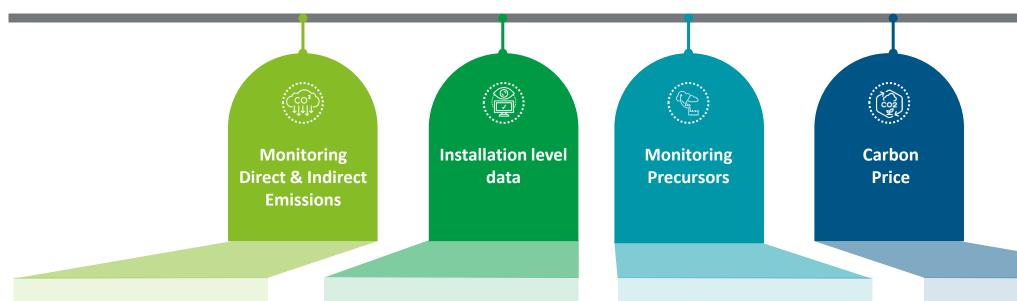


- In addition to reporting obligations, carbon tax/ financial outflow (CBAM purchase and surrender certificates) on import of aluminum, iron, steel and other covered products; and
- 2026 to 2034 new products may also to be taxed under CBAM

Scope may extend to all the products and materials imported into the EU to be taxed under CBAM.



CBAM Reporting – Transitional period



Track and attribute emissions to individual products, in the country of origin (direct emissions).

Emissions generated from the electricity used in production to be factored in (indirect emissions).

importer would need installation level data from exporter (such as geographical location, production routes and processes, etc.)

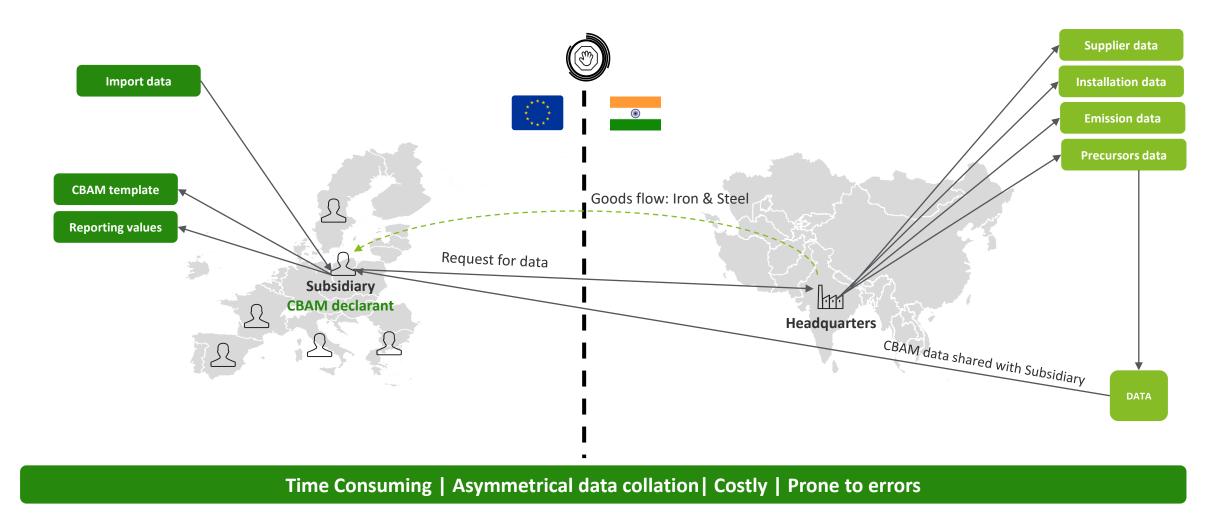
Monitor report the emissions precursor/ intermediate materials used in manufacturing;

Precursor data to be obtained from suppliers.

Full taxes for countries without carbon markets.

Since India has no carbon market - no rebates in carbon pricing

Case study: CBAM data flows (Indian headquarter and EU subsidiary)



Technology & Automation – CBAM compliance manager

Deloitte's CBAM compliance manager

Deloitte.

Supplier's Installations Information

Installation Name: Installation 1

Installation Country: UA Commodity Code: 22022022

Commodity Code: 25022022

Commodity Code: 28022022

Installation Country: IT

Commodity Code: 22022022

Commodity Code: 25022022

Commodity Code: 28022022

Data Service

track on trade

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Declaration Lines

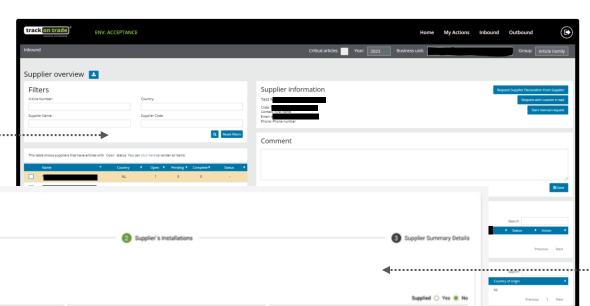
Supplier Information

Our automated solution

Supplier solicitation

The **solicitation GUI** can be used to manage the central emissions data input of suppliers

It shows all open, pending and completed supplier solicitation requests and provides a real-time status update on data gathering.



Auto-link import data with installations and emissions data

Automatically **link** Declaration Lines to Installations based on built-in logic

Supplier portal

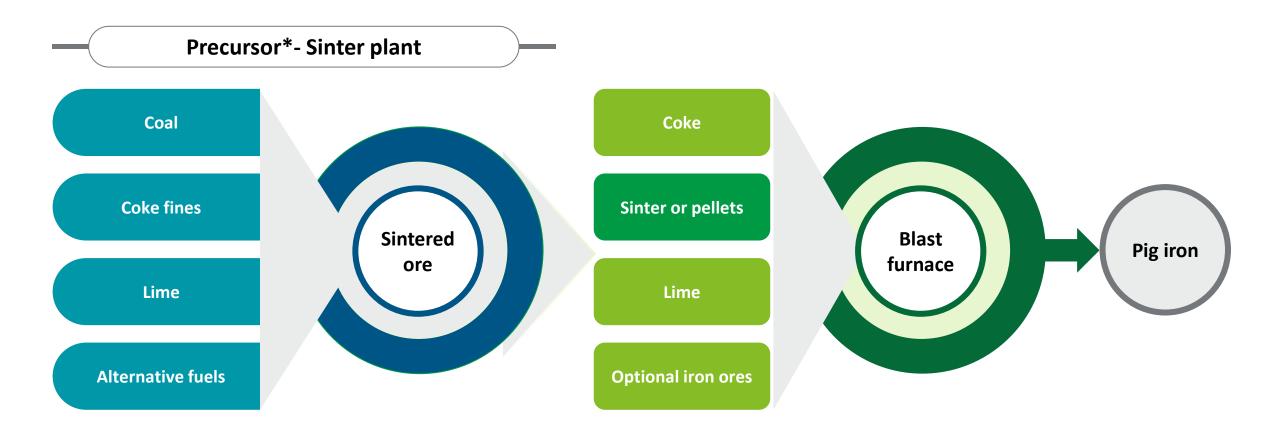
The **supplier portal** is accessed by suppliers to submit installation and emissions data



Installation Data

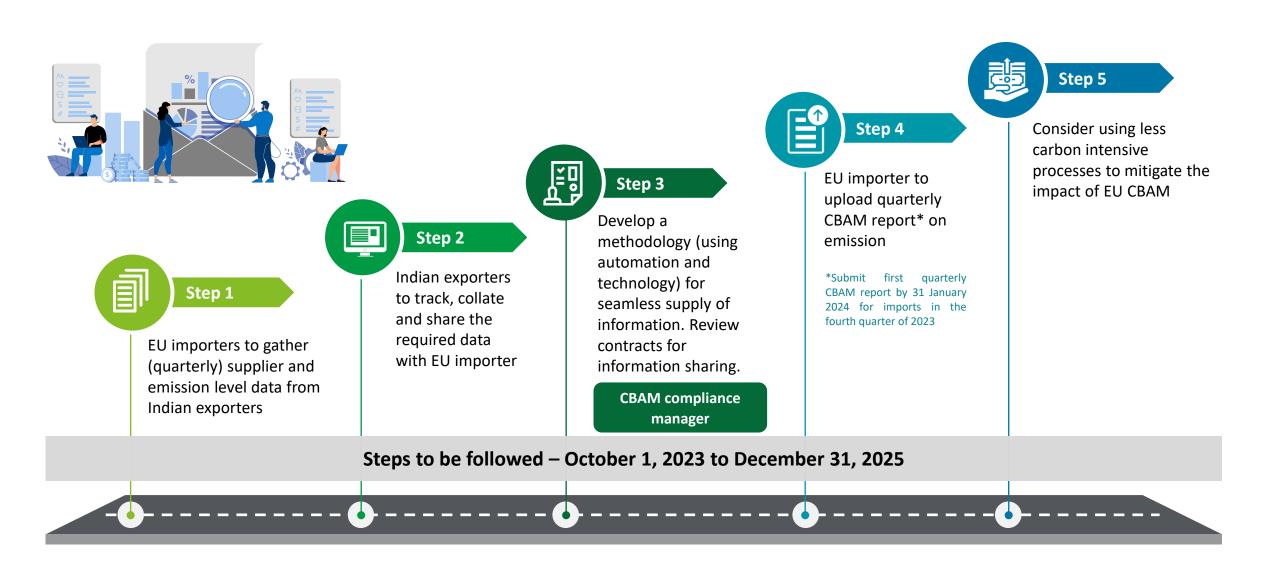
Supplied · Yes · No

Case study: Iron or steel production by Blast furnace route



- Direct and indirect emissions are to be monitored in the entire value chain i.e. precursors and main product.
- Direct emissions result from fossil fuel inputs (coke, coal, fuels oils, natural gas, coal), used both for combustion and as a reducing agent, from other fuels (biomass), from process emissions including from process materials such as limestone and other carbonates.
- Indirect emissions are from electricity.

What do EU importers and Indian exporters need to do? – Transitional period



What do EU importers and Indian exporters need to do? – Definitive period

Steps to be followed – From January 1, 2026







Initial Setup and Authorization

- EU customs authorities will allow imports through authorized CBAM declarants only.
- EU member countries will sell CBAM certificates to the importer (authorized CBAM declarants).

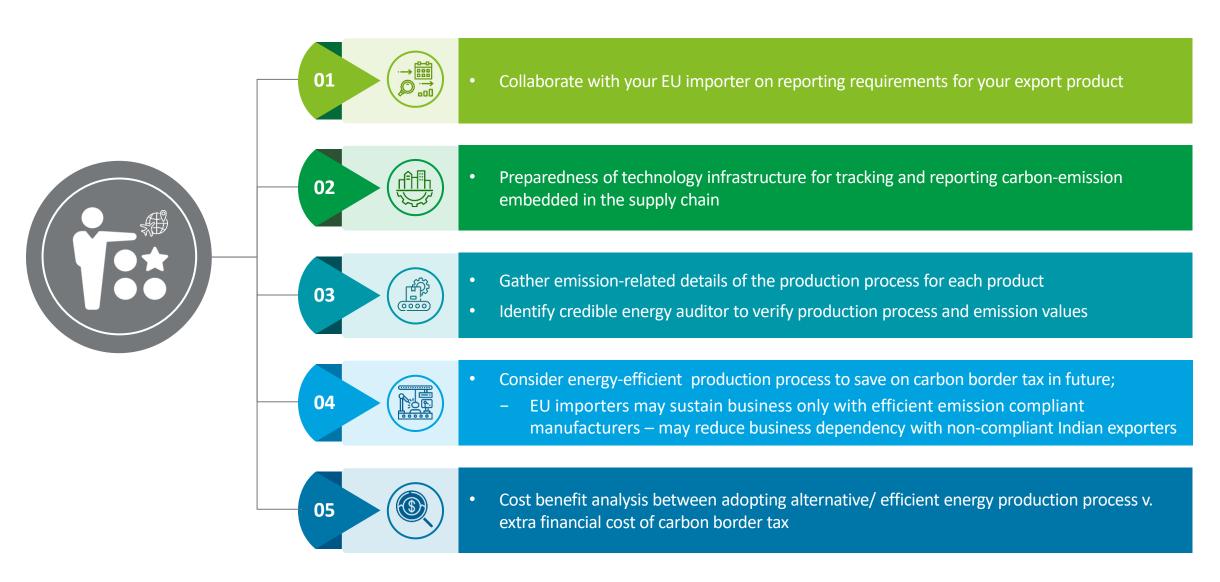
Annual Reporting and Pricing

- EU importers must file annual reports by May 31.
- CBAM certificates to be provided for at least 80% of their emissions quarterly.
- Default (higher) values used for missing data.
- Pricing based on the EU ETS auction price in €/tonne of CO2 emitted.

Emissions Reconciliation and Penalties

- EU importers demonstrate actual emissions during a reconciliation procedure.
- Surrender CBAM certificates corresponding to emissions.
- Penalties apply in case of failure to surrender CBAM certificates by May 31.

What Indian exporters must be prepared for?



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