



## Indirect Tax Alert

# Carbon Border Adjustment Mechanism Reporting Requirements starting 1 October 2023

Greetings from Deloitte Malaysia.

On 16 May 2023, the European Union (EU) Carbon Border Adjustment Mechanism ("CBAM") regulation came into force. By virtue of this, starting 1 October 2023, EU importers (*importing certain products*) are obligated to report among others, the following:

- Import volume of CBAM relevant products;
- Embedded direct and indirect carbon (CO<sub>2</sub>) emissions;
- Carbon price paid in the country of origin (where applicable).

## **Scope of products covered in CBAM regulation**

The reporting obligation currently applies to EU importers of the following products (*certain products above and below the value chain are also included*) into the EU:

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

## **Reporting obligations**

The report with the requisite information is required to be furnished by EU importers to the relevant authorities on a quarterly basis as of 1 October 2023, which means that the first report is due by 31 January 2024.

In this regard, it is pertinent to note that the CBAM regulation is in a transition phase until 31 December 2025. Under the transition phase, importers are only subject to reporting obligation in terms of providing information related to the greenhouse gases (“GHG”) emissions embedded in the relevant products imported into the EU.

However, from 1 January 2026, there will be a reporting obligation as well as a financial obligation for EU importers. This would mean that the importer would have to purchase CBAM Certificates from the EU authorities, which will represent the equivalent carbon price which would have been paid, should the goods have been produced in the EU. This principle is to prevent carbon leakage, i.e., the relocation of intensive emissions manufacturing facilities outside the EU, in a less ESG regulatory stringent location.

It is also worth noting that the purpose of having the transition phase is to serve as a pilot and learning phase for relevant stakeholders. The data and information gathered during this period could be used to refine the methodology for the definitive period of the CBAM, i.e., from 1 January 2026 onwards.

## **What should exporters in Malaysia do?**

While it is on EU importers to furnish the report to the relevant authorities, Malaysian exporters (*and producers of the CBAM products in scope*) will be asked to provide the data and information on the embedded GHG emissions of their products. The data set is quite extensive in terms of production facilities and routes, emissions determination methodology used, record

keeping, etc. The exercise of gathering such data is quite burdensome and should be started by local exporters as soon as possible.

For a limited period and in some instances, it is possible to leverage on existing reporting and GHG emissions determination exercises conducted locally.

### **Implication for exporters**

Considering the upcoming applicable financial impact on the CBAM relevant products, EU importers will assess their supply chain for goods covered by the CBAM and will soon have high incentives to shift to less carbon-intensive manufacturers, where available. This can lead to a complete overhaul of materials sourcing, with new competitors showing up throughout the value chain.

The EU is the first to put in place such border adjustment mechanism, carbon emissions reporting, and carbon prices schemes. However, these measures are expected to be adopted by many other countries soon, including Malaysia, where a National Carbon Policy is expected to start from 2024.

### **How can Deloitte help?**

Deloitte, with a team of professionals equipped with the relevant expertise and experience can assist broadly in the following areas:

- Understanding CBAM requirements
- Calculate CBAM products' embedded emissions
- Perform CBAM financial impact assessment

**Note:**

*Deloitte would be running a webinar to provide more insights into the CBAM regulation. We will keep you updated on the details.*

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### **Contacts**

If you would like to have further discussions on any of the above, please reach out to your usual Deloitte indirect tax contact or any of our leaders below:

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