



Customs Alert

EU Carbon Border Adjustment Mechanism (CBAM) start of transition period

Introduction

On 1 October 2023, the EU Carbon Border Adjustment Mechanism, known as CBAM, entered its transitional phase of application. During this, transitional phase, EU importers need to submit quarterly reports containing information about carbon-intensive goods they import from overseas, including calculations of the embedded greenhouse gas (GHG) emissions. This reporting obligation will be the prelude to a new type of carbon border tax starting in 2026.

CBAM will impact exports of goods from Southeast Asia and Thailand to the EU as suppliers in Southeast Asia will have to coordinate with their EU customers and local authorities on the information requirements and GHG calculations.

What to Know?

Objective of CBAM

CBAM is an EU Regulation designed to address the issue of climate change which requires EU importers to report the embedded GHG emissions in certain carbon-intensive products and ultimately to buy certificates to allow the goods onto the EU market.

The Regulation complements the existing EU Emissions Trading System (EU ETS) which already imposes a gradually decreasing cap on the amount of GHG that EU business are allowed to emit on the EU market and for which they have to obtain allowances, which are limited in numbers. As the total cap for GHG emissions decreases over time, the limited available allowances will become more and more expensive, incentivizing EU businesses to instead limit their emission levels.

CBAM aims to ensure that production of carbon-intensive goods does not shift from the EU to third countries to take advantage of less stringent GHG emission rules. Excluded from the application of CBAM are goods produced in the EU (which are already subject to the ETS) and imports from countries that either fully apply the ETS (European Economic Area countries) or that have concluded

an agreement linking their carbon tax mechanism with the EU ETS (e.g. Switzerland).

Transitional phase

During the transitional phase, CBAM will apply only to **6 categories** of products imported to the EU: **cement, iron and steel, aluminium, fertilizers, electricity, and hydrogen**. In addition, some downstream products which are made from these categories of products are also included. From 2026 onwards, the EU intends to expand the application to other product categories.

From 1 October 2023 until 31 December 2025, EU importers of these 6 product categories have to submit a CBAM report via the EU Commission's CBAM transitional registry at the end of each quarter. This quarterly report must contain information such as the total quantity of in-scope goods imported during that quarter per each production installation in the country of origin, details about the production locations and production routes, the amount of embedded carbon emissions in the imported goods and whether any carbon price is payable in the country of origin.

Reporting for the first quarter will be due by 31 January 2024. No financial levies will be imposed during the transitional period, but penalties can apply between EUR 10 and 50 per ton of unreported carbon emissions.

During the transition period, several Thai agencies are appointed to help with the verification process, including the Department of Climate Change and Environment, Thailand Greenhouse Gas Management Organization (TGO), and Thai Industrial Standard Institute (TISI). Meanwhile, the Thai Industrial Standards Institute (TISI), as the potential national Accredited Body of Thailand, is collaborating with other countries to establish technical equivalence for CBAM measures to help set the local standards and become an authorized accredited verifier by the EU.

Definitive entry into force

From 1 January 2026 onwards, CBAM will become fully operational and EU importers will be required to make yearly CBAM declarations in which they calculate the embedded carbon emissions in their imported products over the course of a year and purchase equivalent CBAM certificates on the ETS market. CBAM declarations will be independently controlled by accredited verifiers. Similarly, as during the transition period, non-compliance with the reporting and payment obligations will result in (higher) penalties.

On the other hand, if other countries implement a domestic carbon tax mechanism to which suppliers of EU customers are subject, these payable carbon taxes will be deductible from the allowances payable in the EU, if properly reported.

What can you do?

Companies in Thailand who export any of the 6 product categories to the EU need to understand the (indirect) obligations that will be imposed on them from 1 October 2023 onwards and cooperate with their EU customers to help them achieve compliance and mitigate the risk of penalties.

- Firstly, companies should confirm whether their products are in the scope of the CBAM reporting obligations based on their assigned HS codes.
- Secondly, exporters whose products are covered by the obligations must learn what data they will be expected to supply to their customers and

how to obtain the data, including and especially on the production routes and GHG emission calculation methodology.

- Finally, exporters must implement a reporting process to ensure consistent information is being provided to their customers.

If you need further information or support on this topic, please contact our Deloitte Customs & Trade professionals.

Contacts

Nu To Van, Partner Customs & Global Trade,
ntovan@deloitte.com

Sujitra Sukpanich, Director Customs & Global Trade,
ssukpanich@deloitte.com

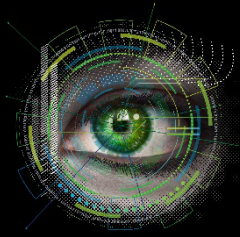
Tom Cachet, Senior Manager Customs & Global Trade,
tocachet@deloitte.com

Pattiya Dao-Chaeng, Senior Manager Customs & Global Trade
pdaochaeng@deloitte.com



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