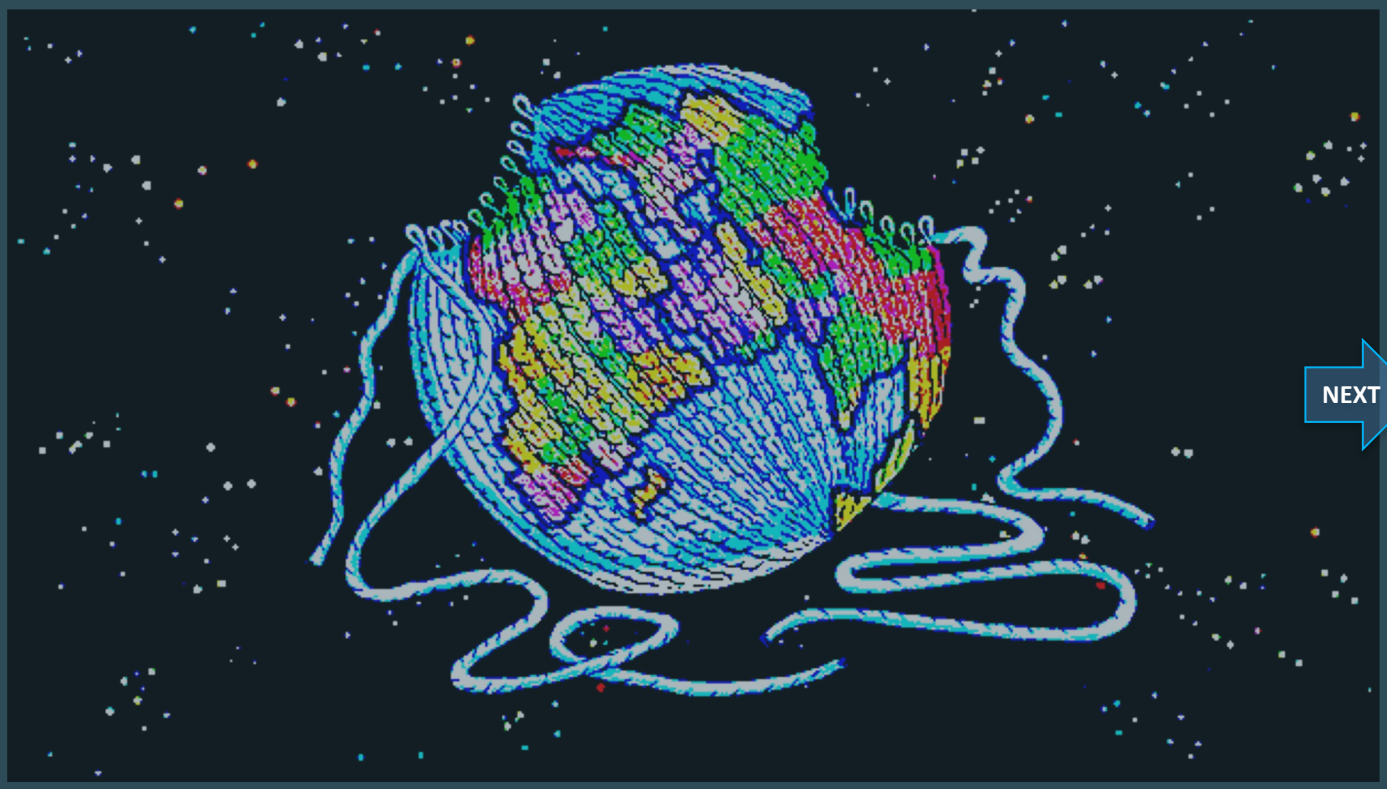
MAKING SENSE OF SUSTAINABILITY



CBAM: CARBON BORDER ADJUSTMENT MECHANISM

0. CBAM CONTEXT & BACKGROUND

The **Paris Agreement** was signed in 2015.

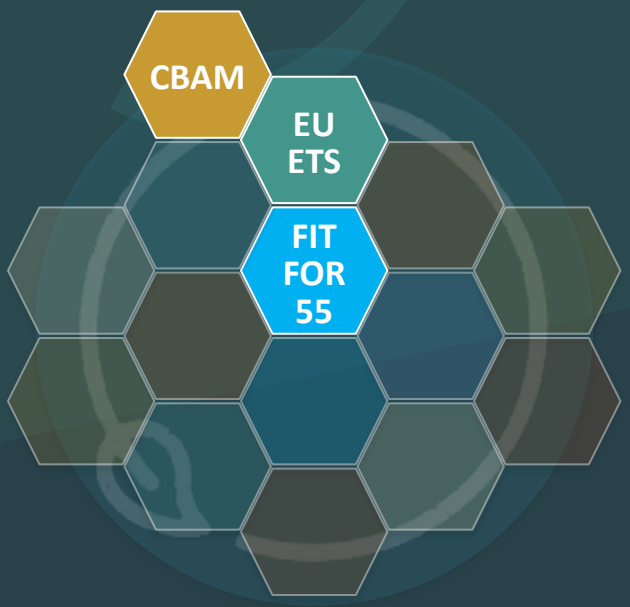
The EU introduced the **Green Deal** in 2019.

Fit for 55 was launched in 2020 setting out the aim to cut emissions by 55% by 2030.

CBAM is part of the structure, using ETS

2015 PARIS AGREEMENT

EU GREEN DEAL 2019



1. WHAT IS CBAM?

The **Carbon Border Adjustment Mechanism** (CBAM), is an EU policy to reduce CO_2 emissions from goods imported into the EU by applying an ETS "tax" on goods that might come from countries with less stringent environmental rules.

Foreign producers will have to pay the same carbon price as EU manufacturers, a move aimed at encouraging cleaner production abroad and preventing European industries from relocating.

2. CBAM IS BASED ON THE ETS

CBAM levels the field for EU companies in Emissions Trading Schemes (ETS) who trade carbon pollution permits.

Under an ETS, a company has an allowance for emissions. The allowance is set per industry sector.

If a company goes over its emissions allowance, it will use an ETS to buy / trade more emissions allowances.

ETS help reduce GHG emissions, as they provide a financial incentive for to invest in low-carbon technologies.

CBAM uses ETS to manage imports.

3. WHO IS IMPACTED BY CBAM?

The first phase of CBAM kicked in Oct. 1, 2023, obliging exporters into the EU from six carbon-intensive sectors – iron and steel, cement, fertilisers, aluminium, electricity generation and hydrogen – to report their emissions to EU authorities.

In order to continue exporting into Europe. foreign firms in those sectors have to collect and report emissions data to a transitional registry hosted by the EC.

Industry is not happy, saying CBAM increases costs and administration.

4. ILLUSTRATIVE EXAMPLE – PART 1

A French company buys 100T steel from a German producer where the carbon intensity is 1.5T CO2 / per tonne of steel.

ETS carbon price is €50 / TCO2

The German producer pays €7500 euros for its emissions and includes that in the price of the product.

100T x 1.5 x €50 = €7500

The French company does not have to pay any additional cost for CBAM, as it is using domestic (EU) product.

5. ILLUSTRATIVE EXAMPLE – PART 2

A French company buys 100T steel from a China producer where the carbon intensity is 2.0T CO2 / per tonne of steel.

The China producer does not pay for its emissions in China, making its steel cheaper than the EU product.

ETS carbon price is €50 / TCO2

The French company now must buy €10,000 in CBAM credits. This is added to the price of the import.

100T x 2.0 x €50 = €10,000.

6. CBAM EXAMPLE – BOTTOM LINE

In the example, the imported steel has a higher carbon intensity that the domestic steel, thereby attracting a higher ETS cost, and that adds to the product cost.

CBAM creates a level playing field between domestic and imported products by ensuring that both pay the same carbon price for their emissions based on carbon intensity.

CBAM prevents carbon leakage and encourages both EU and non-EU producers to reduce their emissions and adopt cleaner technologies.

7. HOW DO I PREPARE FOR CBAM?

1. Identify in-scope products
The CBAM website list products customs code that are in scope.

2. Understand your exposure
Calculate embedded emissions using EPDs, LCA, benchmarks, etc.

3. Identify hot spots in supply chain
Develop strategy with key contributors to embedded carbon.

4. Mitigate the financial impact
Reduce emissions, increase prices to include CBAM, or invest in offsets.

5. Include CBAM in net-zero strategy
Review strategy for operational, supply-chain and market impacts of CBAM.

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DONAL DALY

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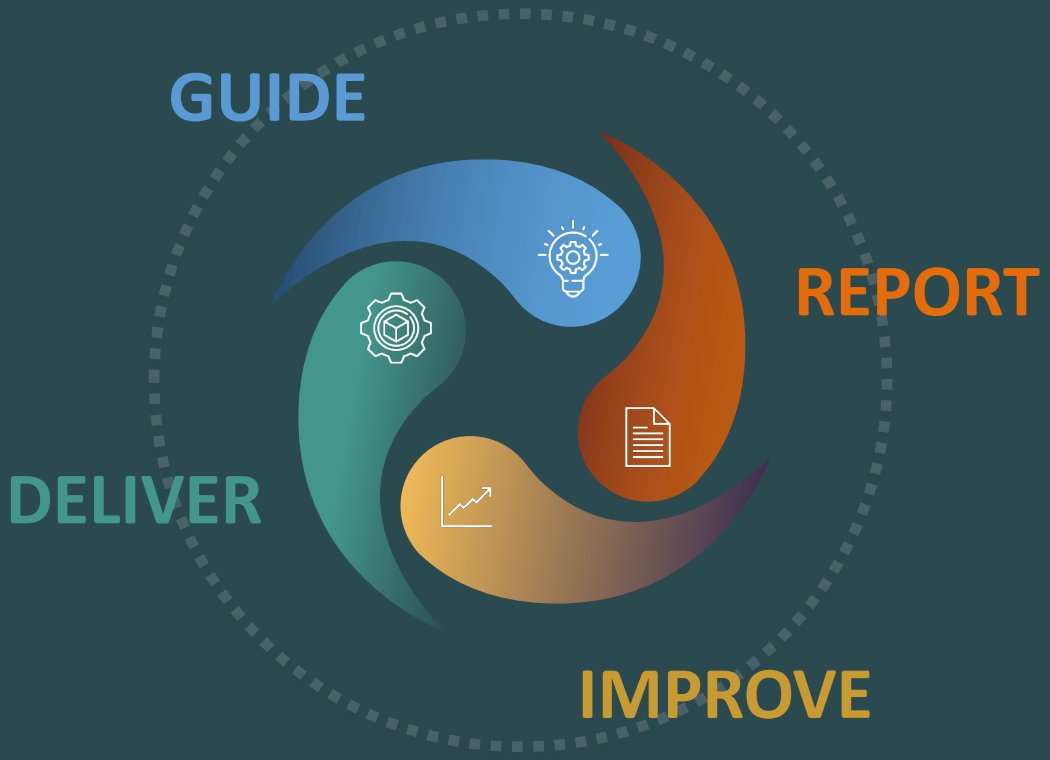

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