



**ACCOUNTANCY
EUROPE.**

CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

Combating carbon leakage in the EU

Factsheet

FACTS.

**TAX
JANUARY 2024**

HIGHLIGHTS

The Carbon Border Adjustment Mechanism (CBAM) is now enforced in the European Union (EU). The new law introduces an import tax on goods such as steel, cement and fertilizers. The legislation is designed to strengthen the EU Emissions Trading System, prevent carbon leakage and ultimately contribute to EU competitiveness.

The Regulation is complex and will heavily impact many businesses, importers, manufacturers, including SMEs. Accountants should be aware of the impacts on their clients and advise them in the CBAM planning and declarations.

This factsheet aims to support accountants and provides an overview of the CBAM's main provisions.

INTRODUCTION

The EU Carbon Border Adjustment Mechanism (CBAM) is now in effect. The [Regulation](#) introduces an import levy on the goods covered by the EU Emissions Trading System (EU ETS). It is designed to reinforce the EU ETS and prevent carbon leakage. This in turn will protect EU competitiveness in key strategic industries. The CBAM Regulation is considered a very significant new addition to EU law.






The goods covered include steel, cement and some fertilizers. The low de-minimis limit of €150 per consignment means that most importers and manufacturers of in-scope goods will be highly impacted– including SMEs.

The legislation is complex and developing. Businesses should urgently determine whether there are impacted. If so, they will need to register or to seek agents that will handle the practicalities. Affected businesses are likely to have to update their information systems and consider their ongoing business model.

Accountants will likely become involved in CBAM planning and declaration. They should be aware of the Regulation and consider which of their clients may be in scope. Businesses and their advisors should contact national competent authorities and review the detailed information on the European Commission's website.

This factsheet provides a high-level summary of the main provisions – for more details please refer to the [legislation](#).

CBAM KEY FEATURES

WHAT IS CBAM?	ON WHICH GOODS?	FROM WHICH COUNTRIES?	FROM WHAT VALUE?	WHEN & WHAT TO DO?
Duty levied on imported goods 	 iron, steel, aluminium, fertilisers, cement, hydrogen, electricity, etc.	Non-EU countries (not currently linked to the EU ETS) 	 Consignments whose value are above 150 euros	<i>Now until 31/12/25:</i> Submit emissions data <i>From 01/01/2026:</i> Pay import tax via CBAM certificates 

WHAT IS THE CBAM?

CBAM is a duty levied at the point of import of certain products (and supplies of electricity) into the EU from [third countries](#). The legislation will be phased in from 1 October 2023 until 1 January 2026 when the definitive phase along with its obligation will be enforced.

BACKGROUND AND PURPOSE

CBAM is part of the [EU Green Deal](#) and [Fit for 55](#), the goal of which is to reduce GHG emissions by 55% by 2030. It is also interlinked with the [EU Emissions Trading System](#) (EU ETS), the scope of which was extended considerably in 2023 through an amending [Directive](#).

The CBAM is mainly a mechanism to make the EU ETS more robust and effective, although it may appear that it is aimed at driving decarbonisation among key trade partners.

Since inception of the EU ETS, free allowances have been available to industries where there is a high risk of 'carbon leakage.' Carbon leakage occurs where carbon-intensive production is moved to countries where there are less stringent emissions policies in place.

EU ETS free allowances will be phased out and new industries and new products will be added to the EU ETS. Therefore, the CBAM has been introduced to:

- provide a level playing field for EU businesses subject to the EU ETS
- disincentivise EU businesses from relocating production to, or switching to importing from, third countries with lower standards (carbon leakage)
- encourage third countries and their industries to decarbonise their manufacturing processes and energy generation.

WHAT IMPORTS ARE COVERED?

Goods specified in Annex I to the [Regulation](#) are subject to the CBAM.

Broadly, Annex I includes the following products:

- iron, steel and aluminium
- certain fertilisers
- cement
- hydrogen
- some 'downstream' products, such as bridge sections, rails, pipes, screws etc. Complex products are not included.

The ultimate criteria to include products into CBAM scope are their HS code (listed in Annex I) and country of origin (see below for more details).

ELECTRICITY

Additionally, **imports of electricity** into the EU are in scope of the CBAM.

However, electricity supplies are not within scope where the third country's electricity market is fully integrated into the EU's, and providing that the third country:

- agrees to an obligation to apply EU law in respect of electricity (including the development of renewable energy sources) and implements this in their national law,
- submits a roadmap to the Commission with a timetable to adopt measures to:
 - commit to climate neutrality by 2050, and
 - fulfil its deadlines by 2030, including the implementation of a national ETS for electricity with a price equivalent to the EU ETS, and
- the third country has effective controls to prevent the indirect import of electricity into the EU from other third countries.

The Commission must assess the third country's progress towards convergence with the EU's electricity market before 2030.

WHICH COUNTRIES ARE AFFECTED?

All imports of Annex I goods that originate from third countries are, in principle, inside the scope of CBAM - unless the third countries are listed in Annex III. Annex III already lists the EEA countries (Iceland, Norway, and Lichtenstein) and Switzerland, as well as some territories - either because they are already in the EU ETS or operate a national ETS that is linked to the EU's ETS.

A mechanism exists to add third countries to Annex III. To be added, a third country can:

- agree to fully link its ETS to the EU ETS, or
- demonstrate that the carbon price charged on goods that originate in its jurisdiction does not have any rebates beyond those applied in the EU ETS.

WHEN DOES THE CBAM COME INTO FORCE?

The CBAM came into effect on 1 October 2023. However, it is currently in a “transitional period” until 31 December 2025. See below for the requirements during this period.

From 1 January 2026 to 31 December 2034 the definitive regime will be phased in. The requirements for the definitive regime are also listed in further detail below.

WHAT ARE THE MAIN PRACTICALITIES?

REPORTING ENTITIES AND REGISTRATION

Starting from 1 January 2026, all goods included in Annex I can only be imported into the EU by an ‘authorised CBAM declarant’ (‘the declarant.’), who must apply for authorisation via a centralised [CBAM registry](#). They will then have to purchase CBAM certificates to pay the tax.

There is a *de minimis* of €150 for consignments of CBAM goods. This means that under this value, the Regulation does not apply. For the purpose of calculating this *de minimis*, the value of all CBAM goods in a single consignment are combined – the value of any non-CBAM goods in the same consignment is ignored.

Member States have established National Competent Authorities (NCA). Before granting declarant status, NCAs have fifteen working days to check that registrants located in their jurisdiction have:

- fulfilled the registration requirements
- have not been involved in serious customs infringements,
- have the financial and operational capacity to fulfil its obligations. A financial guarantee may be required from registrants in certain circumstances.

A [provisional list](#) of NCAs is available.

The EC has an overall supervisory and risk-assessment role.

The declarant would normally be an EU importer of Annex I goods. However, the importer is allowed to appoint an ‘indirect customs representative’ (the ‘representative’) to act as the declarant. In this case, it is the representative (who could represent many different importers) that must register. If the importer is non-EU resident, they **must** appoint an EU representative.

The application must contain specific information, detailed in Article 5.

Although the primary reporting entity is the EU importer or representative, the producer or exporter of Annex I goods will inevitably become involved.

REGISTRATION OF OPERATORS AND INSTALLATIONS IN THIRD COUNTRIES

Declarants will often heavily rely on information provided by the manufacturers, processors etc. located in third countries to make their declarations and purchase the appropriate value of CBAM certificates.

The Regulation recognises this and allows third country operators to register their details and details of their installations in the CBAM register. The requirements are specified in Article 10.

The third country operator will be subject to the same requirements as declarants in respect of the calculation, verification and the record keeping requirements of the calculation of embedded emissions, as described below.

The operator would then be entitled to disclose to declarants the verification information, thereby enabling declarants to fulfil their verification obligations when submitting the CBAM return.

OBLIGATIONS DURING THE TRANSITIONAL PHASE

From 1 October 2023 to 31 December 2025, the transitional phase is the information gathering period and will allow jurisdictions and businesses time to adapt and refine their reporting systems.

No purchase or surrender of CBAM certificates is required.

Relevant importers are required to submit quarterly reports detailing the emissions embedded in the imported goods within 30 days of quarter end. The first CBAM report must be submitted by 31 January 2024.

Penalties will be imposed by the Member State relevant authority if the declarant fails to report or reports incorrect data. This also applied to entities or persons that should have applied to become declarants but have failed to do so.

No verification of reports is required during the transitional phase.

OBLIGATIONS DURING THE DEFINITIVE PHASE

From 1 January 2026 the declarant, at each quarter end, must have purchased CBAM certificates covering the value of at least 80% of emissions embedded in its Annex I goods in that quarter.

CBAM certificates' cost is based on the weekly average of the EU ETS allowance price – currently around €80 per tonne of GHGs emitted. The EU carbon permit price was only around €20 per tonne at the start of 2020 and has reached a peak of around 105€.

There is no limit on the number of CBAM certificates that can be purchased.

At the 31 May each year, declarants must declare:

- the quantity of goods (in tonnes) / electricity (in megawatt-hours) imported into the EU, and
- the total embedded emissions GHG in these imports, and
- the number of CBAM certificates to be surrendered through the EC registry. This is calculated after deducting the net cost paid for GHG emissions in the country of origin of the goods / electricity, and
- copies of a verification reports issued by accredited verifiers.

The declaration covers the preceding calendar year – for example, the first CBAM declaration due 31 May 2027 will cover the 2026 calendar year.

Reduction factor for free allowances, 2026-34

- 2026 – 97.5%
- 2027 – 95%
- 2028 – 90%
- 2029 – 77.5%
- 2030 – 51.5%
- 2031 – 39%
- 2032 – 26.5%
- 2033 – 14%
- 2034 – 0%

The full cost of CBAM certificates will be phased in as the EU ETS's free allowances are phased out. By 2034 the CBAM certificates will be based on the full price of the EU ETS cost of GHG. See the box for details of the phased in reduction to EU ETS free allowances.

The declarant must keep records to support the calculation of embedded emissions, which must be retained for 4 years after the year of declaration. Details of the record keeping obligations are contained in Annex V.

CARBON PRICE PAID IN A THIRD COUNTRY

Member States must have a common central platform to sell CBAM certificates to registrants registered in their jurisdiction.

The amount of CBAM certificates to be purchased is based on the embedded GHG emissions, less any amounts paid for GHG emissions in the jurisdiction of the good's origin – through carbon taxes or levies, an ETS, carbon emissions reduction schemes or similar.

However, in many other jurisdictions the price charged for GHG emissions is much lower than the price of EU ETS allowances, and often applies to a smaller range of goods. For example, the daily weighted average price of China Emissions Allowances was around 8\$ per tonne in 2022, whilst EU ETS allowances amounted to €80.32, on average, in that same year.

This will result in many importers being liable for additional costs.

A reduction can be claimed only if the carbon price was actually paid – if the country of origin has any rebates (or similar) these must be deducted to arrive at the net amount to deduct from the value of CBAM certificates that must be purchased.

Declarant of any third country carbon price paid must keep records, with particular attention to the actual amount paid and of rebates granted. These records must be retained until the end of the fourth year after the relevant declaration was made and information in these records is to be certified by a person independent from the declarant.

EXCESS CBAM CERTIFICATES

CBAM certificates are time limited – they must be surrendered by the 30 June of the year following the year in which they were purchased. Unused CBAM certificates are automatically cancelled from the registry by the EC.

Unlike the EU ETS, CBAM certificates are not tradable on an open market.

Declarants can obtain refunds for excess CBAM certificates from the Member State's competent authority. **However**, the refund of excess certificates is limited to a maximum of a third of the number of the certificates purchased in the previous year. The refunded amount is the amount paid for the certificate – i.e., there is no adjustments for movement in the price of emissions in the intervening period since purchase.

Consequently, it is important that declarants have accurate and robust systems in place to calculate the embedded GHG emissions to avoid buying excess CBAM certificates that then cannot be repurchased.

Failure to surrender the appropriate number of certificates to cover the embedded emissions for the reporting period will result in penalties being charged.

ACCREDITED VERIFIERS

With effect from 1 January 2026, declarants are obliged to ensure that the total embedded emissions declared in the CBAM declaration are verified by an accredited verifier - accredited in accordance with [the implementing Regulation](#) that covers [verification](#) of the EU ETS. That Regulation contains definitions for key verification terms, including those in the footnotes to this section.

It is mandatory for the verifier to visit the relevant installation, except in specific circumstances.

The CBAM declaration is verified only if the verifier has reasonable assurance¹ that the calculation of embedded emissions in the CBAM declaration is free of material misstatement² and material non-conformities³. The contents of a verification report are listed in Annex VI.

The EC has powers to introduce further implementing acts to introduce:

- circumstances when an installation visit can be waived
- thresholds to decide whether misstatements or non-conformities are material, and
- the format of the verification report and supporting documentation.

The EC has the power to issue delegated acts to further specify the conditions for granting accreditation and to map verifiers' qualifications to the elements that will need to be verified under CBAM.

HOW ARE THE GHG EMISSIONS CALCULATED?

The GHGs covered are the actual emissions of carbon dioxide, nitrous oxide, and perfluorocarbons. The relevant GHG's to be included for a particular good are specified in Annexes I and II.

By default, both direct and indirect⁴ GHG emissions are included in the calculation. However, for those goods listed in Annex II only **direct emissions** of GHGs in the production processes are included. Annex II goods are broadly iron, steel, aluminium and hydrogen.

“Direct emissions’ means emissions from the production processes of goods, including emissions from the production of heating and cooling that is consumed during the production processes, irrespective of the location of the production of the heating or cooling.”

Embedded emissions are to be calculated using the methods stated in Annex IV. Separate formulas are specified for simple goods and complex goods. The calculation must be performed for each installation where goods are produced.

Broadly, attributed emissions for **simple goods** are, for each installation:

$$\frac{\text{direct emissions} + \text{indirect emissions attributed to production process}}{\text{quantity of goods produced in reporting period}} = \text{CO}_2 \text{ per tonne of goods}$$

As an indicative example, if a cement producing plant in a third country with no CO₂ pricing mechanism produced 100 000 tonnes of cement in calendar year 20X8, creating both direct emissions and indirect emissions of 45 000 tonnes of CO₂, the calculation would be as follows:

¹ ‘reasonable assurance’ means a high but not absolute level of assurance, expressed positively in the verification opinion, as to whether the operator's report subject to verification is free from material misstatement

² ‘material misstatement’ means a misstatement that, in the opinion of the verifier, individually or when aggregated with other misstatements, exceeds the materiality level or could affect the treatment of the operator's or aircraft operator's report by the competent authority

³ ‘non-conformity’ means for the purposes of verifying an operator's emission report, any act or omission of an act by the operator that is contrary to the greenhouse gas emissions permit and the requirements in the monitoring plan approved by the competent authority

⁴ “‘indirect emissions’ means emissions from the production of electricity, which is consumed during the production processes of goods, irrespective of the location of the production of the consumed electricity”

$$\frac{45\,000 \text{ tonnes CO}_2 + 45\,000 \text{ tonnes CO}_2}{100\,000 \text{ tonnes of cement}} = 0.9 \text{ tonne of CO}_2 \text{ per tonne of goods}$$

With an average daily EU ETS price of €80 per tonne of CO₂, the CBAM cost per tonne of cement would be €72. If half of the production run was imported into the EU, the declarant must purchase certificates amounting to **at least** €2 880 000 ((50 000 x 0.9 x €80) x 80%) during 20X8 and then surrender CBAM certificates totalling €3 600 000 by 31 May 20X9.

If actual emissions data is unavailable, it is possible to use default values derived from relevant, publicly available, literature. There is no specified criteria for determining reliability of the literature, but the Commission will publish guidance and collect data to determine a default value. At the date of publication, there are no further details available on default values.

If reliable data is not available for the exporting country, then embedded emissions will be calculated using emissions data based on the 10% of the **least efficient** producers in EU.

Annex IV also contains a calculation method to cover the embedded emissions in imported electricity.

The EC has the power to adopt further implementation legislation providing detailed rules for the Annex IV calculations.

WHAT'S NEXT?

The EC is obliged to consult with relevant stakeholders about extending the CBAM scope.

By 31 December 2025 it is required to report whether it is possible to extend the scope of CBAM to include:

- the embedded indirect emissions (from electricity generation) for goods covered by Annex II
- the embedded emissions resulting from the transport of Annex I goods and emissions arising from transportation services generally
- other goods at risk of carbon leakage and, specifically, organic chemicals and polymers
- other precursor materials for the goods listed in Annex I
- products further down the value chain of Annex I goods - including a methodology that considers the level of embedded emissions and the risk of carbon leakage.

Where considered appropriate, the EC is also obliged to prepare a legislative proposal extending the CBAM scope to include some or all of the products mentioned above.

OTHER RESOURCES

As the CBAM is a developing legislation, further information will be available progressively. We encourage interested parties to look up the below pages to see what new resources are available.

EUROPEAN COMMISSION

- [European Commissions CBAM home page](#) This page is frequently updated. Specific sectoral assistance is available covering all Annex I categories of goods.
- [Questions and Answers](#).



Avenue d'Auderghem 22-28, 1040 Brussels



+32(0)2 893 33 60



www.accountancyeurope.eu



@AccountancyEU



Accountancy Europe

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).