Carbon Border Adjustment Mechanism (CBAM) kicks into gear today, October 1, 2023 By: Kleber Ofume

Key takeaways:

- **CBAM is part of the "Fit for 55" Green New Deal, aiming to transform a $500 billion industry and help Europe reduce greenhouse gas emissions by 55% by 2030 and ultimately achieve a 100% reduction by 2050.**

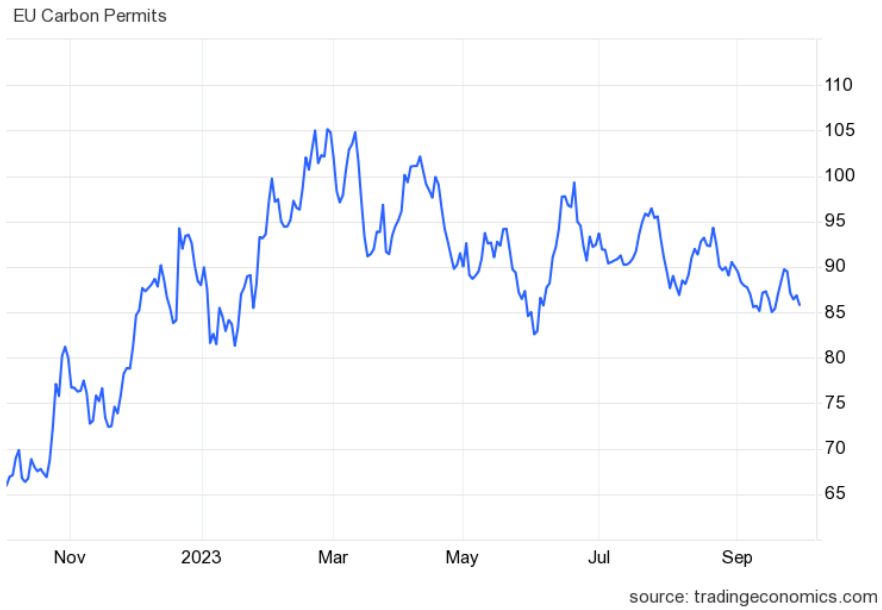
- **There’s concern that CBAM transition costs may lead to higher consumer prices in the European Union, affecting economic sentiment and employment expectations.**

- **Non-EU manufacturing entities should explore carbon offset options**

An estimated $500 billion industry faces a significant transformation today with the European Commission’s proposed Carbon Border Adjustment Mechanism (CBAM). This initiative, designed as part of the “Fit for 55” Green New Deal, aims to help Europe achieve its 55% reduction in greenhouse gas emissions (GHG) by 2030 and ultimately achieve a 100% reduction in emissions by 2050.

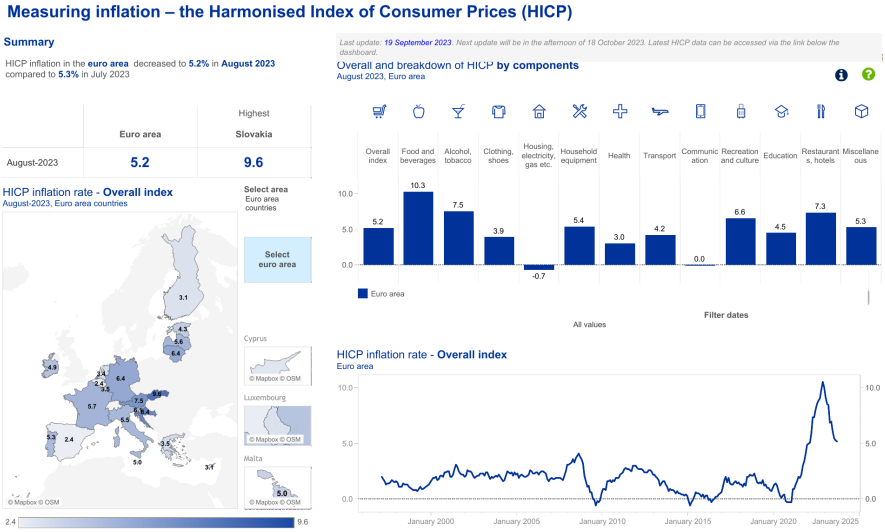
All eyes are still on the EU Emissions Trading System (EU ETS). Countries without mandatory carbon pricing

mechanisms risk fines for inadequate accounting of their carbon footprint associated with imported goods into the European Union, and also leads to taxation through allowances.

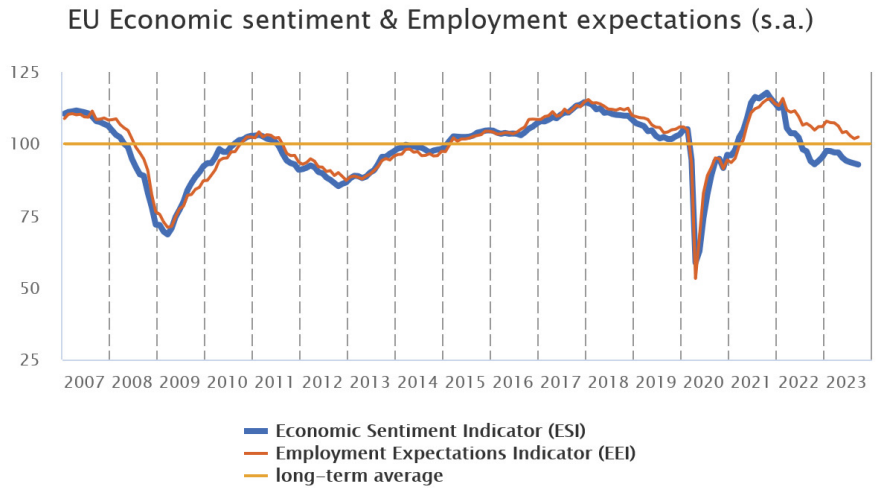


The question that lingers is whether companies will pass on the implementation transition costs of CBAM to European Union entities. This could potentially lead to a surge in the Harmonized Index of Consumer Prices (HICP), also known as

the Consumer Price Index, reminiscent of its previous peak in October 2022 at 10.6% annually.



The European Union’s economic sentiment and employment expectations as of September 2023 are already showing a decline of -0.4 points to 92.8. Is CBAM a harbinger of higher and longer-lasting global interest rates? This is a question that remains unanswered by this policy.



source: European Commission services
To zoom in, please select a period by clicking in the graph and moving the cursor.

SO, WHAT HAPPENS DURING TODAY'S CARBON BORDER ADJUSTMENT MECHANISM (CBAM) TRANSITIONAL PERIOD?

Entities outside the European Union that import items such as cement, aluminum, fertilizer, electricity, hydrogen, iron & steel, and other downstream goods will be required to meet specific reporting obligations for CBAM. These obligations

will include:

1. Reporting the total quantity of imported items into the European Union, the carbon footprint of these items, and the financial liabilities associated with their carbon footprint.
2. The initial reporting deadline is January 31, 2024, for items imported from October to December 2023, with the final reporting obligation due on January 31, 2026, for items imported from October to December 2025.
3. Failure to adhere to the proper carbon footprint calculation rules for imported items may result in substantial fines.
4. A secure database will store all private data of the reporting entities, accessible only to designated individuals involved in the reporting process.
5. Further details and rules can be

found in the Official Journal of the European Union under *COMMISSION IMPLEMENTING REGULATION (EU) 2023/1773* AND *GUIDANCE DOCUMENT ON CBAM IMPLEMENTATION FOR IMPORTERS OF GOODS INTO THE EU* AND *GUIDANCE DOCUMENT ON CBAM IMPLEMENTATION FOR INSTALLATION OPERATORS OUTSIDE THE EU*.

In summary, these four points represent the major aspects of the transitional period concerning emissions reporting.

Non-EU manufacturing entities should immediately focus on these simple steps if they intend to continue trading with the European Union:

1. Understand CBAM Requirements Early
2. Budget for Transition Costs
3. Start Carbon Footprint Assessment
4. Implement Carbon Accounting Systems
5. Gather Necessary Data
6. Secure Data Handling
7. Monitor EU Policy Changes

8. Advocate for Global Carbon Pricing
9. Explore Carbon Offset Options

WHAT COMES AFTER TODAY?

Starting from January 1, 2026, payment requirements for CBAM will be implemented in phases, leading to a gradual reduction in the free allowances granted to EU manufacturing entities, continuing until 2034. The scale-back of free allowances will follow this timeline:

- 2026: 2.5%
- 2027: 5%
- 2028: 10%
- 2029: 22.5%
- 2030: 48.5%
- 2031: 61%
- 2032: 73.5%
- 2033: 86%
- 2034: 100%

The Carbon Border Adjustment Mechanism

(CBAM) of the European Commission is a significant step in the direction of lowering greenhouse gas emissions and finally setting a price on carbon globally. However, because businesses may have to pass on the changeover expenses to consumers, prices may rise for electric vehicles, food, building materials and so on. While this legislation intends to restructure a $500 billion business in line with European climate goals, its financial effects are still unknown. Is this the beginning of another trade war to lead the global south and global north populous into dismay or is the green transition truly here to stay and meet the average target for the globe to achieve 100% reduction in emissions by 2050.

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