



CBAM Frontline Roundup: Countermeasures for the **CBAM** Adjustment Period

The EU is making adjustments on the go in the abrupt progression of CBAM. Business owners are learning the ropes of CBAM by doing and feeling overwhelmed. CBAM is still a whirlpool with unknown depth, and there could be quite some variables in the modification of the rules. Owners must have ready resources to respond to potential changes in CBAM before it takes full effect in 2026, in order to prevent depletion of workforce and capital.

This article explores the progress of EU CBAM disclosed this September by the overseas press and institutions. It will get you to know what is happening in the adjustment period of CBAM, the external doubts and recommended countermeasures, and help you examine the situation of your own company and the paths you can take in the future.

Importers on a Continuing CBAM Learning Curve

Since CBAM entered the transitional phase last October, importers have encountered many difficulties when using the designated CBAM interim reporting platform, which delayed the submission of the first report. Therefore, the European Commission extended the deadline for fulfilling CBAM reporting obligations originally scheduled for January 31 this year, and did not punish importers who were unable to submit reports in time due to technical issues.

To resolve the difficulties, the International Chamber of Commerce (ICC) issued an open letter to the European Commission. **In addition to requesting to simplify the exchange of information and processes, ICC made three specific requests:**

1. That the deadline for submitting reports be extended to the end of 2025.
2. Allowing submitting reports on platforms other than the designated reporting platform.
3. That importers from third countries submit information taking into account carbon emission directly to the CBAM portal, due to the fact that importers found suppliers and operators from third countries are reluctant to share the information.



CBAM has been on trial run for a year and the transitional period is still here to stay. There remains to be a lot of opinions provided by external parties, which may eventually change the details of CBAM. It could be a sudden change and requires more attention.

External Doubts Surrounding CBAM's Effectiveness Remain Unresolved

The Asian Development Bank (ADB) has questioned that the EU carbon tax has only limited effectiveness in improving climate change and has limited economic impact on the Asia-Pacific region. According to the ADB's statistical model in 2024, CBAM can help reduce less than 0.2% of global carbon emissions. In addition, according to the Asian Economic Integration Report (AEIR), CBAM may cause global exports to the EU to decrease by approximately 0.4%, and Asian exports to the EU to decrease by approximately 1.1%.

ADB pointed out that "carbon pricing initiatives can only limit part of carbon leakage. In order to significantly reduce global carbon emissions, carbon pricing initiatives need to be expanded to other regions outside the EU, especially to Asia with a high proportion of carbon-intensive exports towards Europe". Carbon emissions in Asia are growing faster than in other regions. In addition to China and India, manufacturing investment in Southeast Asia has increased significantly in recent years, and therefore there is room for increase in carbon emissions in the future there. In this regard, both Thailand and Vietnam plan to levy carbon taxes in 2025.

CBAM Could Harm EU Manufacturers?

When CBAM is expanded to other industries, the free quotas for certain local manufacturers in the EU will also be phased out. However, among EU's import sources for industries subject to CBAM, nearly three-quarters come from EU member states. Take the steel industry for example, among EU's import sources, the 27 EU countries account for as much as 77.3% (data source: World Bank), China only for 5.2%, India for 2.6%, UK for 2.5%, and the U.S. for 1.2%. This means that phasing out the free quotas may lead to increased production costs in EU member states.

If the scope of CBAM is not expanded to cover carbon emissions from downstream industries, CBAM at the current stage may disproportionately harm the competitiveness of EU manufacturers. ADB points out that CBAM may help combat carbon leakage as a result of the EU emissions trading system by bringing manufacturing back to the EU, but CBAM may cause EU downstream manufacturers to move part of their production outside the EU, and in turn increase carbon leakage.

EU is one of the world's largest producers of automobiles and machinery. **CBAM and the gradual phasing-out of**

free quotas will lead to an increase in steel prices, which may have a major impact on production costs and exports of the automotive, machinery and other industries, thereby undermining the competitiveness of EU manufacturers.

It's Best to Prepare Ahead than to Regret Later

It is already known to everyone that the carbon tax will become a new massive expenditure in global trade, with a huge financial impact. While the financial impact of CBAM is expected to become visible by 2026, it is critical to prepare right now. **Thomson Reuters recommends that future potential legal and financial risks can be mitigated by taking steps in advance, including:**

1. Hire dedicated personnel or analytical experts to help your company determine the scope of impact.
2. Deploy your company's global supply chain. Assess and identify affected suppliers and identify those that comply with CBAM regulations.
3. Modify the terms and conditions in supplier contracts to require accurate and timely embedded emissions data for CBAM commodities. Require working with suppliers on data improvement, clearly define suppliers' responsibility for CBAM compliance, specify which party is responsible for carbon certificate fees, and outline the consequences for non-compliance. Consider adding provisions regarding confidentiality and data storage.
4. Develop CBAM reporting process. Establish processes for collecting and storing embedded emissions data, including who in the supply chain holds this information, who will contact suppliers, and who will work with suppliers.
5. Identify products with lower embedded emissions. Assess and analyze your supply chain to identify additional sourcing options for products that could have lower carbon emissions.
6. Exporters selling to Europe should also take measures. Exporters should proactively identify products that are subject to CBAM and should be reported. They should review the methods used to calculate emissions and ensure that they have methods to collect the necessary data. They should ensure that there is a process for collecting, storing, calculating and sharing the required information.

It is less than a year and one month before CBAM takes full effect. CBAM carbon tax will be one of the largest tax expenditures on the planet. The impact on manufacturing and trading costs is yet to be accurately quantified and assessed. Responding in advance is the best defensive strategy to deploy stop-loss in advance, and the best offensive strategy to win orders in the future. ■

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