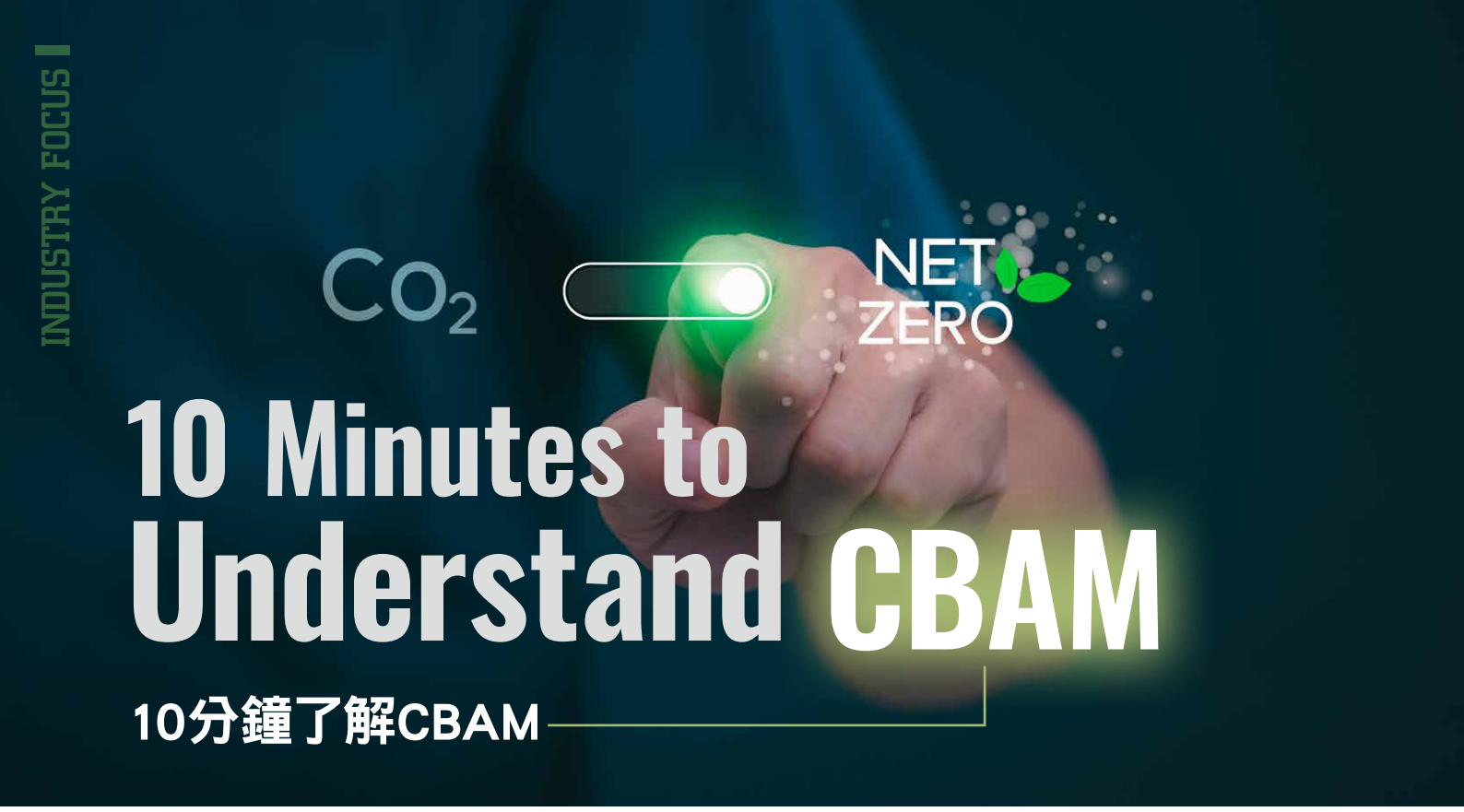

10 Minutes to Understand CBAM

10分鐘了解CBAM

The Carbon Border Adjustment Mechanism (CBAM) is one of the European Union's most ambitious climate policy tools aimed at reducing carbon leakage, ensuring a level playing field for EU businesses, and achieving the EU's climate goals. This article provides a clear and concise breakdown of CBAM's key requirements, latest updates, and implications for importers and exporters.

What is CBAM?

The CBAM is designed to prevent "carbon leakage," a situation where companies relocate their production to countries with looser environmental regulations to avoid high carbon costs. The mechanism imposes a financial adjustment on imports of specific goods into the EU based on the carbon emissions involved in their production. This ensures that foreign producers are subject to the same carbon price as EU-based producers under the EU Emissions Trading System (ETS). The goal is to encourage global climate action while safeguarding EU industries from unfair competition.

Transition Phase (2023-2025)

From October 2023, the EU has entered a transitional phase for CBAM, which lasts until the end of 2025. During this time, businesses importing products covered by CBAM (such as cement, iron and steel, and aluminum) must report the carbon content of their goods but will not yet have to pay the financial adjustment. This reporting is crucial as it helps authorities gather data for the full implementation of the system, which will begin in 2026.

Importers are required to report the quantity of goods and their embedded emissions quarterly during this phase, while ensuring they comply with the specific carbon accounting methodologies set out by the EU. The purpose is to allow time for businesses to adjust to the new reporting requirements before full enforcement begins.

Full Implementation in 2026

Starting in 2026, the CBAM will be fully operational. This means that businesses importing covered products into the EU will be required to purchase CBAM certificates for the amount of carbon emissions embedded in those products. These certificates will be priced according to the average price of EU ETS allowances, which is based on the price per ton of CO2 emissions. Importers will have to declare the volume of goods and their embedded emissions on an annual basis, with deadlines set for May 31 each year for the previous year's imports. They will then need to surrender the equivalent amount of CBAM certificates to the authorities. Importers must also ensure they register with the relevant national authorities to access the system and purchase these certificates.

Key Sectors Affected by CBAM

The initial sectors covered under the CBAM are those that are considered to be high carbon emitters and have a significant risk of carbon leakage. These include:

- Cement
- Iron and steel
- Aluminum
- Fertilizers
- Electricity

These sectors were chosen due to their large carbon footprints and their vulnerability to being outsourced to countries with lower environmental standards. As of now, these are the only sectors included, but the EU has indicated plans to expand CBAM to other sectors, including organic polymers and plastics, by 2030.

Reporting Requirements and Challenges for Importers

Importers will face several challenges during the CBAM rollout, especially concerning the accuracy and availability of carbon emissions data. For many non-EU exporters, carbon emissions data may not be readily available or standardized, which could create barriers for compliance.

• **Data Accuracy:** Importers need accurate carbon content data from their suppliers. If this information is missing, importers can use default carbon intensity values based on product types, but these default values might not reflect actual emissions, which could lead to over- or under-reporting.

• **Reporting Complexity:** The complexity of calculating and verifying carbon emissions, especially for products manufactured with multiple components or produced in countries with varying environmental regulations, could lead to increased administrative burdens for businesses.

However, the transition phase (2023–2025) provides time to address these challenges, and the gradual implementation will allow businesses to adapt to the new system.

Opportunities for Importers

Despite the challenges, CBAM presents opportunities for importers, particularly those looking to align with global sustainability trends:

• **Green Investments:** Importers and their suppliers will have an incentive to invest in cleaner, more efficient technologies to reduce the carbon intensity of their products. This can lead to cost savings in the long run, especially as the price of carbon continues to rise.

• **Market Differentiation:** Companies that comply with CBAM and adopt low-carbon practices can differentiate themselves in the marketplace, appealing to environmentally conscious consumers and investors.

• **Access to Carbon Pricing:** The integration of CBAM with the EU ETS provides a pathway for businesses outside the EU to engage with carbon pricing mechanisms and prepare for future regulations in other regions.

Impact on Non-EU Exporters

For non-EU countries exporting goods to the EU, CBAM will present both challenges and incentives:

• **Challenges:** Exporters will need to provide accurate carbon emission data to EU importers, which could require significant changes in their production processes. Additionally, exporters from countries without comparable carbon pricing mechanisms may find it more difficult to compete in the EU market.

• **Opportunities:** Exporters who reduce their carbon footprint could gain a competitive edge, as EU importers may prefer low-carbon products to minimize their own compliance costs. Moreover, the global shift towards sustainability will likely increase demand for low-carbon products across markets.

CBAM's Impact on the Fastener Industry

The fastener industry, which plays a crucial role in sectors like automotive, construction, and machinery, will be impacted by (CBAM), particularly due to its reliance on energy-intensive raw materials like steel and aluminum. While the fastener industry is not directly covered under CBAM, the carbon intensity of the materials used to produce fasteners will be scrutinized. Manufacturers who import raw materials from countries without similar carbon pricing systems will be affected by higher costs due to the requirement for CBAM certificates to offset emissions tied to these imports. For fastener manufacturers, the main challenge lies in increased operational costs due to carbon pricing on raw materials. Importers of fasteners into the EU will be required to report the carbon emissions embedded in the production of these products and secure CBAM certificates to match the emissions levels. This will particularly affect companies that source materials from regions without similar carbon pricing mechanisms, potentially driving up production costs. However, this shift could also provide an opportunity for innovation, as manufacturers that invest in more sustainable production processes will be able to reduce their carbon footprint, thus lowering costs in the long term and improving their market competitiveness in the EU. Moreover, fastener companies outside the EU may need to adjust to these requirements, particularly if they wish to remain competitive in the EU market. As the EU pushes for greater sustainability, these companies may have the chance to innovate and engage in the growing global carbon market, which could lead to new opportunities and supply chain enhancements. Ultimately, while the fastener industry faces challenges under CBAM, the push toward sustainability offers significant opportunities for those who adapt and invest in greener technologies.

Outlook and Extensions of CBAM

While the Carbon Border Adjustment Mechanism (CBAM) currently targets a limited number of sectors, such as cement, steel, and aluminum, the European Union has outlined plans to gradually expand its coverage to include more industries. This extension could encompass additional energy-intensive sectors, such as chemicals, fertilizers, and glass, which are significant contributors to global emissions. In addition, there is growing consideration of including indirect emissions—for example, those stemming from the electricity consumed during production processes. This would ensure a broader range of emissions are accounted for, further supporting the EU's goal of carbon neutrality by 2050. As the global carbon market evolves, CBAM is expected to serve as a key driver for sustainability across various industries. By introducing carbon pricing mechanisms that reflect the true environmental costs of products, CBAM creates a clear financial incentive for industries to adopt greener technologies and reduce their carbon footprints. The mechanism could push industries that are not yet covered by CBAM, or those with limited sustainability initiatives, to accelerate their efforts towards decarbonization. Companies that are proactive in reducing their emissions will likely find themselves at a competitive advantage in the long term, benefiting from a more sustainable supply chain and increased market demand for low-carbon products. In addition, as more countries around the world implement their own carbon pricing systems, CBAM could encourage global harmonization of carbon regulations, which would reduce the risk of competitive disadvantages for businesses operating across borders. The EU's leadership in carbon regulation may inspire similar policies in other regions, ultimately contributing to a more uniform and widespread effort toward mitigating climate change.

Resources

1. CBAM Overview by European Commission
2. CBAM Update by Loyens & Loeff