

Price Waterhouse & Co LLP

Carbon Border Adjustment Mechanism (CBAM)

October 2023



What is CBAM and why should you care?



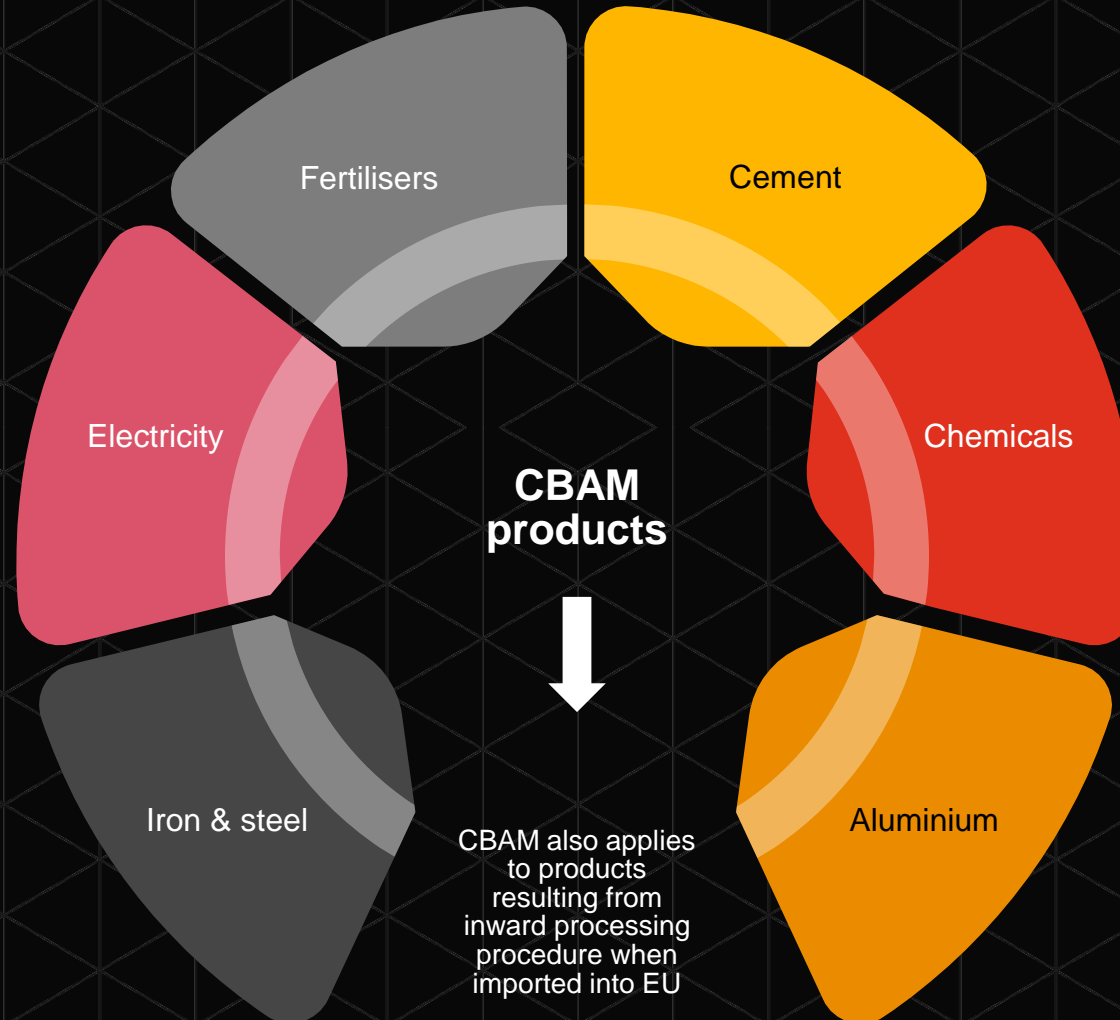
- CBAM is essentially EU's new **carbon tax**, which is designed on the lines of EU's domestic Emission Trading System (ETS). **Starting from 1 October 2023, the reporting requirements** under CBAM will become applicable under CBAM's Phase-I.
- In **Phase-I**, the **embedded emissions** in the exports of covered products will have to be reported on a quarterly basis. Therefore, the report for the period of **October–December 2023** will have to be submitted **by 31 January 2024**.
- In the **second phase of CBAM** – i.e. Phase-II beginning from 1 January 2026 – a **carbon levy** would become applicable, depending on the embedded carbon in the exported products.
- CBAM will initially apply to imports of six sectors – **cement, iron and steel; aluminum; fertilisers; electricity and hydrogen; and selected precursors**.
- For **non-compliance, incorrect or incomplete filing of a CBAM report**, penalties **up to EUR 50 per tonne** of unreported embedded emissions are expected.

A detailed overview of CBAM goods – customs is key!

- Nitric acid (HS 28080000)
- Ammonia (HS 28141000 / 28142000)
- Nitrates of potassium (HS 28342100) Mineral or chemical, nitrogenous (HS 3102) Mineral or chemical, nitrogen, phosphorus and potassium (HS 3105) (Except 31056000)

- Electrical energy (HS 27160000)

- Iron & Steel (HS 72 incl. 72021, 72024 and 72026* but excl. 7204)
- Sheet piling (HS 7301) Railway (HS 7302)
- Tubes of cast iron (HS 730300) Tubes other than case iron (HS 7304) Other tubes (HS 7305)
- Other tubes and hollow profiles (HS 7306) Tube fittings (HS 7307)
- Structures (HS 7308)
- Reservoirs (HS 7309)
- Tanks (HS 7310)
- Containers (HS 7311) Screws, Bolts etc. (HS 7318) Other articles (HS 7326)



- Clinkers (HS 25231000)
- Kaolin and other kaolinic clays (HS 25070080)
- White Portland (HS 25232100) Other Portland (HS 25232900) Aluminous (HS 25233000) Other hydraulic (HS 25239000)

- Hydrogen (HS 28041000)

- Unwrought (HS 7601)
- Powders (HS 7603)
- Bars (HS 7604)
- Wire (HS 7605)
- Plates (HS 7606)
- Foil (HS 7607)
- Tubes (HS 7608)
- Fittings (HS 76090000)
- Structures (HS 7610)
- Reservoirs (HS 76110000)
- Casks (HS 7612)
- Containers (HS 76130000)
- Stranded (HS 7614) Other articles (HS 7616)

Initial Consideration of CBAM Impact

For companies that export CBAM goods to EU, the following questions would be relevant -

Question-1

Are the goods of your company directly or indirectly exported to EU, and are subject to CBAM?

No

Risks & Recommended Actions

- Check for carbon emission levels and risks at this stage
- Recommended to continuously monitor trends, considering the possibility of CBAM expanding the scope of goods

Yes

Question-2

Are you in possession or able to provide data that can be used to calculate the embedded emissions, in accordance with the provisions set out by CBAM?

No

Risks & Recommended Actions

- Risk of not being able to respond to EU importers requests pertaining to reporting obligations due to lack of information in possession
- Recommended to identify the necessary data and start communicating with EU importers

Yes

Question-3

Have you started coordinating with EU importers regarding the CBAM response required of exporters (e.g. provision of information on embedded emissions etc.)?

No

Risks & Recommended Actions

- Risk of misunderstanding with EU importers regarding information requested by EU importers
- Recommended to communicate with the EU importers to confirm the details of necessary CBAM compliance

Yes

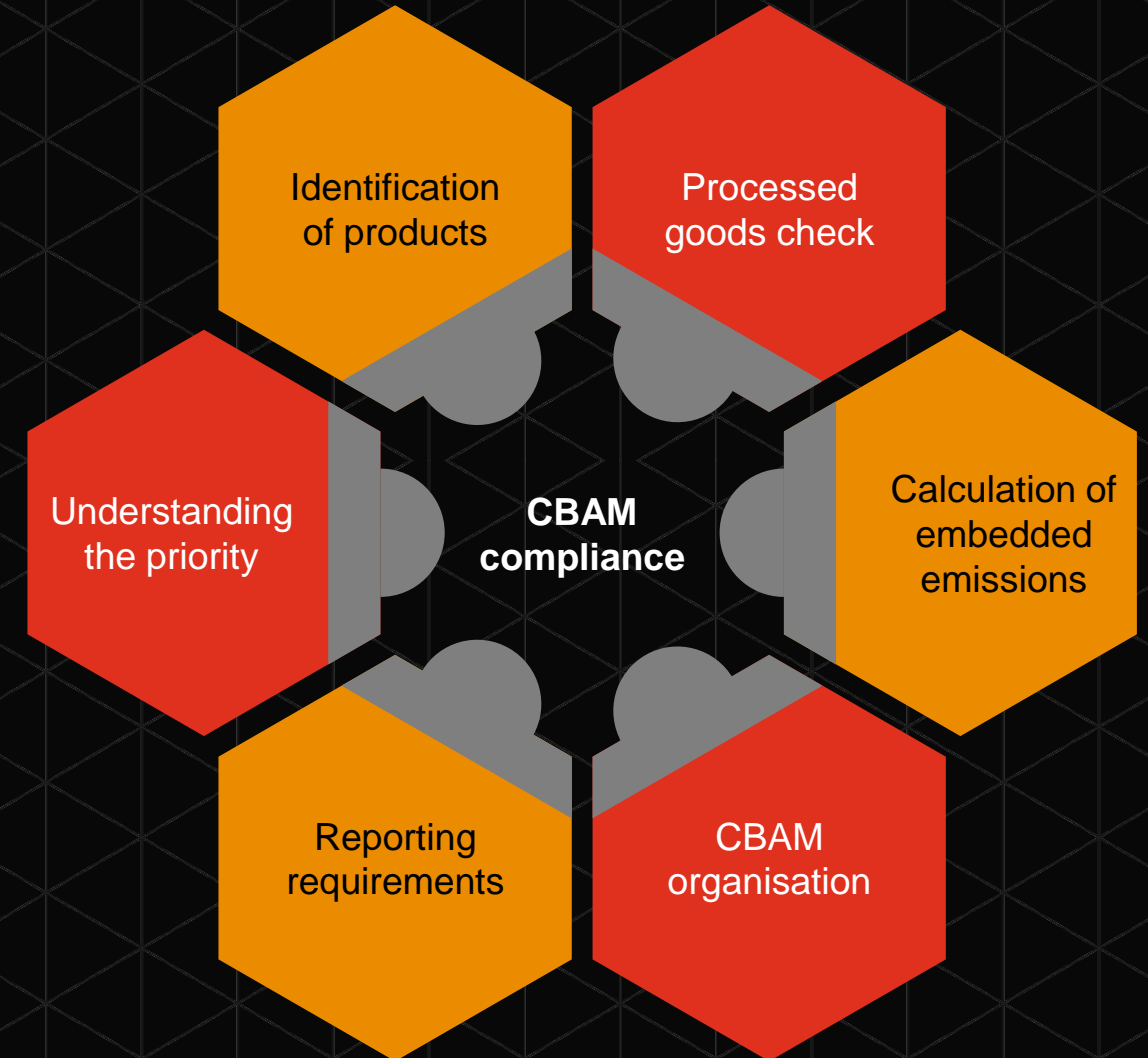
Your company has already started taking initial response.

What needs to be done By Exporters



Key steps

- Identification of products – are they covered under the CBAM regulation?
- Processed goods check – assessing the extent of applicability of CBAM (processed goods from covered goods resulting from inward processing are also covered)
- Information collation and computation concerning embedded emissions
- Potentially establishing a CBAM organisation for the efficient management of information relevant to CBAM reporting
- Ensuring that the relevant, format-based information is passed on to the EU importer
- **Priority for the transitional phase** – ensuring a high level of accuracy in sharing information concerning CBAM with the EU importer
- **Priority post the transitional phase** – attempting to minimise the carbon levy incidence (if any), along with following the above-mentioned steps



Steps to begin with..



What are industries supposed to do?

Define boundaries

- Installation's boundaries
- Production processes
- Production routes

Reporting period

- Calendar or financial year
- At least three months of data

Monitoring parameter

- Direct emissions (adjusted for heat flows)
- Calculation-based approach or measurement
- Indirect emissions
- Precursors

Monitoring methodology for each parameter

- Quantities
- Conversion factors
- Embedded emission values (precursors)
- Carbon price paid in the jurisdiction



- **A CBAM management handbook** may be maintained
- **A CBAM organisation** may be established



Key definitions

'Direct emissions' refer to emissions from the production processes of goods, including emissions from the production of heating and cooling consumed during the production processes, regardless of the location of the production of the heating and cooling.

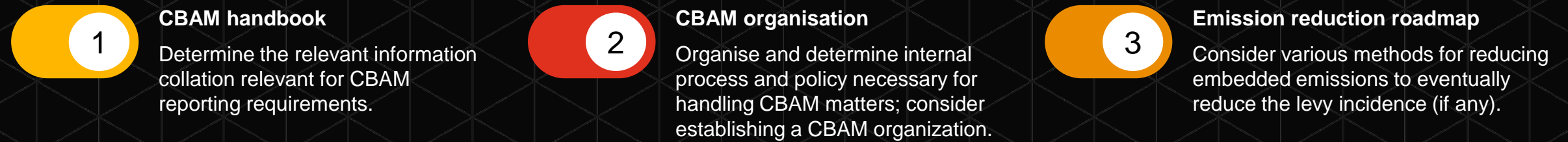
'Indirect emissions' mean emissions from the production of electricity, which is consumed during the production processes of goods, regardless of the location of the production of the consumed electricity.

'Embedded emissions' mean emissions released during the production of goods, including the embedded emissions of the relevant precursor materials consumed in the production process.

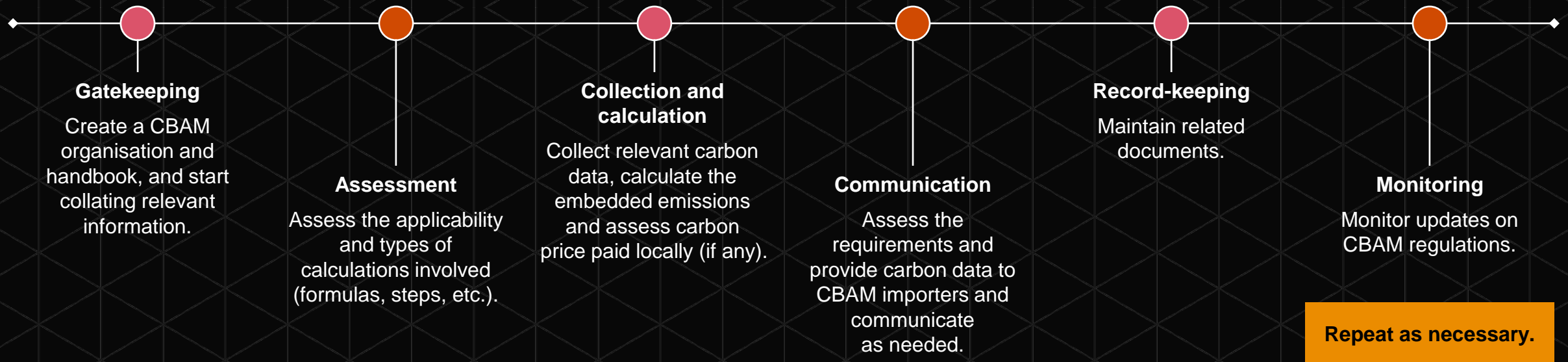
Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L:2023:130:FULL>

Steps going forward

For companies that export CBAM goods to the EU, it is likely that they will be required to consider and respond to the following matters in the long run:



Examples of activity for CBAM handling



Potential Concerns during Phase-I: the 4 Cs

1

Computation

- Detailed disclosures under reporting requirements
- Limited clarity around computation mechanism

2

Competition

- Improper reporting/management of emission data
- Increased trade competition based on emissions

3

Customs coordination

- Divergent classification norms between India and the EU
- Awaited clarity on detailed information required from customs perspective at the port of import

4

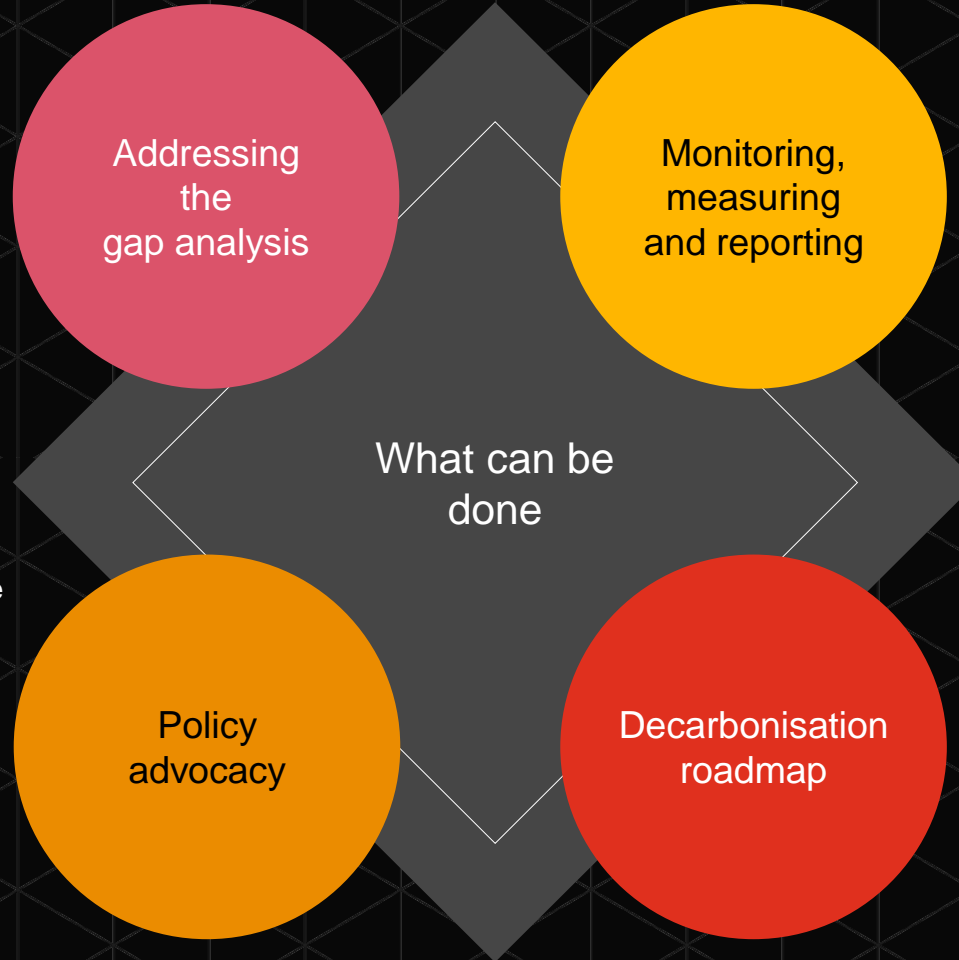
Confidentiality

- Concerns regarding data leakage
- Breach of confidentiality of trade secrets

Way forward: Preparing for the CBAM

- Comparing the **company's current practices vis-à-vis CBAM requirements** and **identifying potential gaps**
- **Proposing strategies to streamline** requisite procedures for easing CBAM requirements fulfillment, including the creation of a **CBAM organisation** within the entity

- Support in **policy-level representation** (example India–EU FTA negotiations, representation to government departments, etc.)
- Support in **seeking CBAM equivalence/reduction through Carbon Credit Trading Scheme (CCTS) scheme, clean environment cess, etc.**



- Developing a **framework for monitoring, measuring and reporting** of embedded GHG emissions
- **Capacity development** with respect to all aspects of emissions estimation, calculations, reporting and decarbonisation

- Support in evaluating the **impact on supply chain and leveraging technology** for ensuring overall efficiency
- Developing a feasible, **phase-wise decarbonisation roadmap**

Thank you

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