



## EU Carbon Border Adjustment Mechanism (CBAM) – Summary Guide

**1. General Overview:** The Carbon Border Adjustment Mechanism is a policy introduced by the European Union to put a price on the carbon emissions released during the production of certain goods imported into the EU.

It is part of the EU's broader "Fit for 55" plan, which aims to reduce greenhouse gas emissions by 55% by 2030 (compared to 1990 levels).

CBAM ensures that companies inside and outside the EU pay similar costs for carbon pollution, so that non-EU companies don't gain an unfair advantage by avoiding climate regulations.

### 2. Purpose

CBAM helps prevent carbon leakage -when companies move production to countries with weaker environmental rules just to avoid paying carbon costs.

By applying a carbon price to imported goods (similar to the one paid by EU companies under the EU Emissions Trading System (ETS)), CBAM:

- Encourages cleaner production worldwide
- Protects EU businesses from unfair competition
- Supports the global fight against climate change

### 3. Timeline and Phases

#### Transitional Phase (Oct 1, 2023 – Dec 31, 2025):

- Importers must report emissions linked to their products every 3 months.
- No payments are required yet.
- Penalties apply for failing to report.

#### Definitive Phase (Jan 1, 2026 onward):

- Importers must buy CBAM certificates to cover the emissions in their imports.
- These certificates reflect the carbon price in the EU.
- Free allowances under the ETS (for EU producers) will gradually be phased out by 2034.

### 4. Products Covered (Initial Scope)

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





- Expansion to include organic chemicals, polymers, and all EU ETS sectors is expected by 2030.

## **5. Who Must Comply with CBAM?**

- EU Importers: Must report emissions and, later, purchase certificates.
- Non-EU Exporters: Must provide accurate emissions data to their EU customers. If they don't, they risk losing access to the EU market.

## **6. What Happens If You Don't Comply?**

- During the transitional phase, fines can be up to €50 per tonne of CO<sub>2</sub>.
- During the definitive phase, penalties will reflect the actual EU carbon price

## **7. How can companies respond**

### **For EU Companies:**

- Analyze which products are affected.
- Talk to suppliers about emissions data.
- Prepare for extra costs and update supply chain strategies.
- Consider shifting to low-carbon materials and production.

### **For Non-EU Suppliers:**

- Start measuring emissions now.
- Ensure emissions data is credible and verifiable.
- Work with EU buyers to maintain access to the EU market.

## **8. Can Companies Reduce Risk or Costs? (Hedging Strategies)**

### **Financial Strategies:**

- Use carbon market tools like futures or internal carbon pricing to manage budget risks.
- Prepare for fluctuations in certificate costs.

### **Operational Strategies:**

- Change to cleaner production methods or lower-emission suppliers.
- Invest in renewable energy or efficiency to reduce emissions over time.

