



CBAM Summary: Transitional period provisions

What your business needs to know



Regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism (CBAM)¹

CBAM reporting obligations commenced on 1 October 2023, meaning it is urgent for importers to the EU, and EU companies producing or importing goods with high embedded emissions, to prepare for these regulatory developments.

It is critical for companies and importers of CBAM goods in the EU to remain well-informed of these developments and begin evaluating the overall impact on their business activity, which may not be limited to a view on their customs data only, but also impact their sourcing and supply chain.

Summary of the CBAM Regulation

A Regulation that establishes a Carbon Border Adjustment Mechanism for regulating greenhouse gas emissions embedded in **certain goods, upon their importation into the customs territory of the European Union (EU), with the purpose of preventing the risk of carbon leakage.**

Covered goods

Applies to goods listed in Annex I, originating in countries and territories outside of the customs territory of the EU, with the exception of countries and territories listed in Annex II.

Article 2

Although the scope won't change before 2026, it is intended that the scope of the covered goods includes all sectors covered by the EU Emissions Trading System (ETS) by 2030.

Annex I goods (identified by CN code)



• Cement



• Electricity



• Iron and steel



• Aluminium



• Fertilizer



• Hydrogen

Indirect emissions under certain conditions, certain precursors as well as some downstream products (e.g., screws and bolts) are also included.

Annex III exception countries and territories



Iceland



Liechtenstein



Norway



Switzerland

+ five other minor territories

- Büsingen
- Heligoland
- Livigno
- Ceuta
- Melilla

¹ Source: Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism — Official Journal of the European Union, 16 May 2023

Transitional period provisions²: 1 October 2023–31 December 2025

Calculating embedded emissions

EU Methodology: The embedded emissions of CBAM goods are to be determined using either a calculation-based approach (where emissions from source streams are determined based on activity data) or a measurement-based approach (consisting of a continuous measurement of the concentration of the relevant greenhouse gases themselves), dubbed the “EU methodology”. To ensure sufficient flexibility for small operators in third countries, estimated values may be reported for the production steps in installations whose contribution to direct emissions do not exceed 20 percent of the total embedded emissions of the imported goods. As of 1 January 2025, only the EU methodology will be accepted. **Article 4(1)**

Acceptable Alternative Methodologies – until 31 December 2024: In addition to the above methodology, and to provide for some flexibility during the first 15 months of implementation, companies will have the choice, until 31 December 2024, of reporting in one of three alternative ways, consistent with:

1. a carbon pricing scheme where the installation is located; or
2. a compulsory emission monitoring scheme where the installation is located; or
3. an emission monitoring scheme at the installation which can include verification by an accredited verifier. **Article 4(2)**

Other non-prescribed methodologies – until 31 July 2024: A further alternative is provided for reporting declarants who cannot obtain the requisite information that would allow them to report under one of the methodologies listed above. Until 31 July 2024, reporting declarants may use other non-prescribed methodologies for determining the emissions, including default values made available and published by the Commission. **Article 4(3)**

Without time limit, but quantitatively limited: up to 20 percent of the total embedded emissions of complex goods may be based on estimations made available by the operators of the installations. **Article 5**

Carbon price due in a country of origin

Reporting declarants shall provide, where applicable, information regarding the carbon price due and the form of rebate or any other form of compensation available in that country that would have resulted in a reduction of that carbon price, in the country of origin for the embedded emissions. This information is to include the quantity of embedded direct or indirect emissions covered by the carbon price and rebate or other form of compensation, including free allocations. **Article 7**

Reporting data requirements

Each reporting declarant shall provide information in respect of, *inter alia*:

- The quantity of imports per customs procedure
- The Combined Nomenclature (CN) codes of goods
- The country of origin
- Details of the installation where goods were produced
- The production methods and qualifying parameters
- For steel goods, the ID of the steel mill for the batch of steel goods
- The direct and indirect embedded emissions pertaining to the goods imported (at both a product and installation level) **Article 4**

Quarterly CBAM reports

Quarterly reports are to be submitted in the CBAM Transitional Registry no later than one month after the end of a quarter, with the first CBAM report due by **31 January 2024. Article 8**

Modifications may be made to the reports until two months after the end of the relevant reporting quarter (for the first two reporting periods, CBAM reports may be modified until the submission deadline of the third CBAM report). **Article 9**

Administration and penalties

A CBAM Transitional Registry, which is a standardised electronic database containing common data elements for reporting in the transitional period, will enable information exchange. **Article 10**

A CBAM Trader Portal will provide a unique entry point to the CBAM Transitional Registry for reporting declarants, whereby they will receive notifications related to their CBAM compliance obligations and are to submit CBAM Reports. The CBAM Trader Portal can be used to store information about third country installations and embedded emissions for later re-use. **Article 22**

Penalties will be imposed if reporting declarants haven't taken necessary steps to comply with the obligations to submit a quarterly CBAM report or correct an incorrect or incomplete CBAM report. The penalties will range between EUR 10 and EUR 50 for each tonne of unreported embedded emissions, increasing in accordance with the European index of consumer prices. Higher penalties will apply when more than two incomplete or incorrect reports have been submitted in a row, or the duration of the failure to report exceeds 6 months. **Article 16**

² Source: Commission Implementing Regulation of 17.8.2023 laying down the rules for the application of Regulation (EU) 2023/956 of the European Parliament and of the Council as regards reporting obligations for the purposes of the carbon border adjustment mechanism during the transitional period.

How KPMG can help

The EU CBAM is associated with significant increases in ambition within the EU ETS, with implications for the future carbon price pathway and the amount of free permits received by European producers: it is important to understand the impact of these measures together for the particular industry you are in.

Whether based within the EU or trading with the EU, we encourage companies to consider their own decarbonization strategies, whether it be to ensure that they are prepared for compliance with upcoming legislation, or to ensure that operations are future-proofed against medium- and long-term global developments.

KPMG has developed a leading global [Climate Change and Decarbonization](#) practice. Working alongside KPMG's Global Trade and Customs practice and ESG Sustainability and Tax and Legal teams, we can deliver leading approaches as we work collaboratively with clients on the journey to a low-carbon future.

KPMG ESG professionals can assist you with a climate risk and decarbonization strategy that includes helping you gain strategic foresight and operational value in your decarbonization journey, from emissions measurement to implementation, monitoring and reporting. This is supported by an array of options, such as renewable energy procurement, energy efficiency, circular economy and supply chain management, and includes assessing and understanding the underlying tax and legal impacts.

Through our Climate Risk Advisory services, we can help you measure, quantify and assess risks and opportunities across supply chains under a wide range of scenarios and understand the impact on business performance.

We also advise clients on the financing and investment aspects of the low-carbon agenda, including fundraising and identifying investment partners and merger and acquisition opportunities, which consist of both debt and equity approaches.

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