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SENSITIVE*

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

establishing a carbon border adjustment mechanism

(Text with EEA relevance)

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EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

The world is facing a profound climate crisis and the challenges of climate change require a global response. Strong international cooperation will strengthen the joint climate action needed by all the Parties of the Paris Agreement to meet the goal of holding the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 degree Celsius above pre-industrial levels⁽¹⁾.

The European Union's international leadership must go hand in hand with bold domestic action. To meet the objective of a climate-neutral EU by 2050 in line with the Paris Agreement, the EU needs to increase its ambition for the coming decade and update its climate and energy policy framework. As announced in the European Green Deal⁽²⁾, the Commission has proposed a new EU target for 2030 of reducing greenhouse gas ('GHG') emissions by at least 55 per cent compared to levels in 1990⁽³⁾, based on a comprehensive impact assessment⁽⁴⁾. This objective has been endorsed by the European Council⁽⁵⁾. To deliver on these GHG emissions reductions, the Commission proposes to revise where necessary all relevant policy instruments by July 2021 in a 'Fit for 55 Package', which covers in particular the review of sectoral legislation in the fields of climate, energy, transport, and taxation⁽⁶⁾. A carbon border adjustment mechanism ('CBAM') is part of that package and will serve as an essential element of the EU toolbox to meet the objective of a climate-neutral EU by 2050 in line with the Paris Agreement by addressing risks of carbon leakage as a result of the increased EU climate ambition.

The European Green Deal underlined that 'should differences in levels of ambition worldwide persist⁽⁷⁾, as the EU increases its climate ambition, the Commission will propose a CBAM, for selected sectors, to reduce the risk of carbon leakage. This measure will be designed to comply with World Trade Organization rules and other international obligations of the EU. It would be an alternative to the measures that address the risk of carbon leakage in the EU's Emissions Trading System⁽⁸⁾'. Indeed, carbon leakage could result in an overall increase in global emissions hence undermining the effectiveness of EU climate policies.

The 2015 Paris Agreement on climate change, as well as strong international diplomacy and leadership, are part of the EU's toolbox to achieve higher climate ambition globally. The

¹ Article 2(1)(a) of the Paris Agreement.

² European Commission. (2019). The European Green Deal (COM(2019) 640 final, p. 4).

³ The Commission put forward the proposal COM(2020) 563 final, amending the initial Commission proposal on the European climate law to include a revised EU emission reduction target of at least 55 % by 2030. On 10-11 December 2020, the European Council in its conclusions endorsed this increased EU target.

⁴ European Commission. (2020). Stepping up Europe's 2030 climate ambition. (COM(2020) 562 final: Part 1/2).

⁵ European Council. (2020). Conclusions of the European Council of 11 December 2020. (EUCO 22/20 CO EUR 17 CONCL 8).

⁶ European Commission. (2020). Commission Work Programme 2021. (COM(2020) 690 final). Annex I outlines all the instruments to be proposed which includes among others the review of energy taxation.

⁷ The level of ambition refers to the commitment towards climate neutrality and the implementation of transformative agenda to that end.

⁸ European Commission. (2019). The European Green Deal. (COM(2019) 640 final), p. 5.

Paris Agreement commits the international community to a continuous increase in the ambition of climate action to limit global average temperature rise in order to significantly reduce the risks and impacts of climate change. Each Party must prepare its own nationally determined contribution ('NDC') towards this global goal, reflecting its 'highest possible ambition' as well as its 'common but differentiated responsibilities and respective capabilities, in the light of different national circumstances'⁹.

As long as the EU's international partners do not share the same level of climate ambition as the EU, and differences in the price put on GHG emissions remain, there is a risk of what is generally referred to as carbon leakage. Carbon leakage refers to the situation that occurs if, for reasons of differing ambitions related to climate policies, businesses in certain industry sectors or subsectors were to transfer production to other countries with less stringent emission constraints or imports from these countries would replace equivalent but less GHG intensive products due to the difference in climate policy stringency. This could lead to an increase in their total emissions globally, undermining the effectiveness of the EU's emission mitigation policies.

Currently, the risk of carbon leakage is being addressed in the EU under the EU Emissions Trading System ('EU ETS')¹⁰. This is the world's first international emissions trading system and has been in place since 2005. For the sectors covered by this system and most at risk of carbon leakage, this risk is currently managed through the granting of free allowances and compensations for the increase in electricity costs under state aid rules. However, free allocation under the EU ETS weakens the price signal that the system provides for the installations receiving it compared to full auctioning. It thus affects the incentives for investment into further abatement of GHG emissions.

At the same time, as the EU increases its climate ambitions, the divergence with third countries level of climate action is expected to widen with an increased risk of carbon leakage for the EU. First, the EU's increasingly ambitious GHG emissions reduction targets should reduce the overall number of allowances. This may lead to a higher carbon price in the EU ETS, which in turn creates an even larger difference to countries without carbon pricing mechanisms. Second, the cap on emissions and therefore the total amount of allowances will be reduced to meet new targets under the increased ambition. This means that free allocation will also decline over time and therefore carbon costs should increase for industrial installations, which may lead to an increase in the risk of carbon leakage.

Considering the problems described above, this proposal addresses the problem of reducing GHG emissions in the EU, while at the same avoiding that these emissions reduction efforts are offset by emissions increase outside the EU. In this context, a CBAM is proposed with the overarching objective of addressing the risk of carbon leakage in order to fight climate change by reducing GHG emissions in the EU and globally.

- **Consistency with existing policy provisions in the policy area**

In the context of the 'Fit for 55 Package' the CBAM is not a self-standing measure. It is a support measure aiming at enabling the climate ambition of the EU. The CBAM is complementary to the EU ETS, with a view to addressing the risk of carbon leakage and reinforcing the EU ETS itself. There is thus a strong interdependence between the EU ETS and CBAM.

⁹ Article 4(3) of the Paris Agreement.

¹⁰ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

Under the ‘Fit for 55 Package’ the EU ETS is also proposed for revision. This involves the possible extension of the EU ETS to maritime transport, as well as to emissions from buildings and road transport ⁽¹¹⁾. Most notably, a higher environmental contribution of the EU ETS translates into a more stringent cap on emissions, meaning that the number of allowances available will decline. A more stringent cap will likely imply an increase of the EU ETS carbon price at which allowances’ supply and demand match. The EU objective of climate neutrality and the decision to raise climate ambition for 2030 also lead to a broader reconsideration of existing measures against carbon leakage. In particular, free allocation of allowances prevents carbon leakage risks but also weakens the carbon price signal for EU industry compared to full auctioning.

As indicated by the Green Deal Communication, the CBAM ‘would ensure that the price of imports reflect more accurately their carbon content. This measure will be designed to comply with World Trade Organization (WTO) rules and other international obligations of the EU ⁽¹²⁾’. Further, President von der Leyen has underlined that ‘Carbon must have its price – because nature cannot pay the price anymore. This Carbon Border Adjustment Mechanism should [also] motivate foreign producers and EU importers to reduce their carbon emissions ⁽¹³⁾’.

The existing mechanisms to address risk of carbon leakage are free allocation of EU ETS allowances and in some cases financial measures to compensate for indirect emission costs from increases in electricity prices due to the EU ETS (indirect emission costs). These mechanisms can co-exist during a transitional period but it needs to be ensured that they are not overlapping. This means that the phase-in of a CBAM during a transitional period will need to be coordinated with the phasing-out of the free allocation of EU ETS to installations in the EU laid down in the Directive 2003/87/EC and in the relevant delegated acts. The same kind of approach needs to be taken as regards compensation for indirect emission costs by way of financial measures covered by relevant state aid guidelines ⁽¹⁴⁾ in the light of ensuring the fulfilment of the EU climate neutrality objective.

- **Consistency with other Union policies**

In the special European Council of 17-21 July 2020 ⁽¹⁵⁾, EU leaders agreed on the recovery instrument NextGenerationEU. The instrument will provide the EU with necessary means to address the challenges posed by the COVID-19 pandemic and, therein, support investment in the green and digital transitions. In order to finance it, the Commission will be able to borrow up to EUR 750 billion on financial markets. In that context, EU leaders agreed to provide the EU with new own resources, notably to facilitate the repayment of NextGenerationEU funds.

As part of the mandate received, the Commission was invited to put forward a proposal for a CBAM in the first semester of 2021, with a view to its introduction at the latest by 1 January 2023. The CBAM will, as well as other upcoming initiatives, form part of new own resources. The envisaged timetable was confirmed in the roadmap towards the introduction of new own

¹¹ Add footnote when available.

¹² European Commission. (2019). The European Green Deal. (COM(2019) 640 final), p. 5.

¹³ State of the Union Address by President von der Leyen at the European Parliament Plenary on 16 September 2020. https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_1655

¹⁴ Communication from the Commission Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post-2021 (OJ C 317, 25.9.2020, p. 5).

¹⁵ See [European Council conclusions, 17-21 July 2020](#)

resources agreed by the European Parliament, the Council and the Commission on 16 December 2020 ⁽¹⁶⁾.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

• Legal basis

Articles 191 to 193 of the Treaty on the Functioning of the European Union ('TFEU') confirm and specify EU competencies in the area of climate change. The legal basis for this proposal is Article 192(1) TFEU. In accordance with Articles 191 and 192(1) TFEU, the EU shall contribute to the pursuit, inter alia, of the following objectives: preserving, protecting and improving the quality of the environment, promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change.

• Subsidiarity (for non-exclusive competence)

Climate change is by its very nature a trans-boundary challenge that cannot be solved by national or local action alone. Coordinated EU action can effectively supplement and reinforce national and local action and enhances climate action. Coordination of climate action is necessary at EU level and, where possible, at global level, and EU action is justified on grounds of subsidiarity.

Since 1992, the EU has worked to develop joint solutions and drive forward global action to tackle climate change. More specifically, action at EU level should aim to provide for cost effective delivery of long-term climate objectives, while ensuring fairness and environmental integrity. The establishment of a robust governance of the EU 2050 climate-neutrality objective will help to ensure that the EU remains on track to achieve this target. Action on climate change adaptation at EU level enables the integration of adaptation policies and measures in key sectors, governance levels and EU policies.

• Proportionality

The proposal seeks to address the challenge of reducing GHG emissions in the EU while at the same time avoiding that these emissions reduction efforts are offset by emissions increase outside the EU. The policy choices therefore are clearly dictated by the aim to achieve the objectives of the CBAM, namely to address the risk of carbon leakage in order to fight climate change by reducing GHG emissions in the EU and globally.

The proposed product coverage of CBAM is framed by the sectors and emissions covered by the EU ETS and the CBAM scope should be laid down by a reference to certain goods by way of their classification in the Combined Nomenclature ⁽¹⁷⁾. This serves the motivation for the measure, namely to ensure that imports of energy intensive products into the EU are on equal footing with EU products in terms of EU ETS carbon pricing and to mitigate risks of carbon leakage. CBAM, as an alternative to free allocation of EU ETS allowances, builds on the

¹⁶ Interinstitutional Agreement of 16 December 2020 between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources (OJ L 433I, 22.12.2020, p. 28).

¹⁷ Commission Implementing Regulation (EU) 2020/1577 of 21 September 2020 amending Annex I to Council Regulation (EEC) No 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff (OJ L 361, 30.10.2020, p. 1).

logic of the EU ETS starting with sectors where emissions are the highest and therefore where it would matter most.

The carbon content of products is an essential element of the CBAM as it indicates the carbon dioxide equivalent ('CO₂e') emissions released during their production abroad. This is used to ensure that imported products are treated no less favourably than domestic products produced in EU ETS installations. As installations covered by the EU ETS are subject to a carbon price assessed on their actual emissions, imported products in the scope of CBAM should also be assessed based on their actual GHG emissions. However, such an approach may involve high administrative costs in the beginning and therefore for an initial transitory period it is proposed to use default values with the possibility for the importers to demonstrate that their products were produced with actual emissions lower than the default value, and therefore be subject to a lower CBAM obligation.

As regards the administration of the measure empowering a central CBAM Authority for the entire EU would minimize the relevant administrative costs associated with this task. This is one of the reasons why a significant share of revenues are allocated to the EU budget as an own resource. In contrast to this, a set-up similar to the EU ETS with national competent authorities could also be conceivable. This is, however, expected to result in substantially higher costs because of the stronger need for collaboration and coordination of the assessment of declarations of embedded emissions in imported goods.

- **Choice of the instrument**

The objectives of the present proposal can best be pursued through a Regulation. This will ensure direct applicability of a number of provisions concerning goods imported in the Customs Union. Moreover, this Regulation requires uniform and consistent application and enforcement throughout the EU in order to pursue the objectives of Articles 32 and 207 TFUE.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

Stakeholder consultations

For the preparation of this proposal, the Commission designed and implemented a stakeholder's consultation strategy, which encompassed both public and targeted consultations.

An inception impact assessment took place between 4 March and 1 April 2020 via the Commission website with the aim to collect feedback on the initial considerations of the project. In total 219 responses were submitted during this consultation period broken down into approximately 150 responses by trade federations, business associations and individual businesses, 20 NGOs, 20 citizens and the remaining from think tanks, academic/research institutions, trade unions and public authorities. The majority of responses came from the EU, with 24 from third countries.

Overall, the majority of replies expressed support for the CBAM, with the remaining being roughly divided equally between limited and no support. The vast majority of responses expressed cautiousness in the design of the measure requesting to consider all options possible. Among others, key areas emphasized were the impact on value chains and reliance on imports of raw materials, avoidance of excessive effects on final consumers, links to EU ETS and free allowances, distributional impact in affected sectors and across countries,

especially developing economies and interaction with existing trade defence measures on raw materials.

In line with the Commission's Better Regulations Guidelines an open public consultation was also placed on the Commission website, from 22 July to 28 October 2020. The consultation aimed to gather opinions from citizens and organisations on the justifications, objectives, potential design and scope as well as impacts of the initiative. Respondents were also allowed to upload position papers. A total of 615 respondents participated in the public consultation. Of these, 6 responses were duplicates, leading to 609 valid contributions.

With respect to the problem of carbon leakage, most respondents state that carbon leakage is a real issue and that the CBAM can address carbon leakage, foster consumption of low-carbon products in the EU, and stimulate the deployment of low-carbon technologies and ambitious climate policies in third countries. On the effectiveness of current measures in the context of the EU ETS and state aid rules to limit carbon leakage, and on the ability of other regulatory measures to reduce GHG emissions companies, business associations and public authorities have a positive belief whereas citizens and other stakeholders are more critical. Respondents suggest that the CBAM should focus on products from activities already included in the EU ETS (especially those with the highest risk of carbon leakage) and account for entire value chains.

In addition to the above, the Commission services engaged in extensive bilateral consultations with public authorities within the EU and third countries, business associations, individual companies and NGOs. At the same time targeted consultations were undertaken by external contractor who conducted a total of 25 in-depth interviews with senior managers and associations from the basic materials sectors, manufacturers, NGOs and policymakers. There were two rounds of interviews. First, 17 informal interviews were conducted at an early stage and served to identify relevant points of concern and open questions for further research. In a second step, eight additional interviews were conducted in order to test whether the judgements and concerns from the informal interviews were shared among a wider group of stakeholders. 17 stakeholders came from industry, 5 from NGOs and 3 from Member State institutions.

The results of the public and targeted consultations allowed the Commission to collect a significant number of views and opinions on the initiative. Both public and targeted consultations showed agreement on the necessity of a CBAM to address the risk of carbon leakage and help the EU to achieve its increased climate ambitions. The feedback received throughout these consultations has been used to inform the choice of the design elements and the preferred policy options.

- **Collection and use of expertise**

The preparatory steps for the proposal rest on an array of studies and expert advice, analysing the potential design and scope of CBAM as well as its environmental, social and economic impacts.

In particular, a study on the optimal design of the mechanism and its sectoral coverage was conducted with the support of external expertise to the Commission. The study reviewed the logic of intervention, assessed a range of alternative options and their feasibility, provided technical advice on technical design elements and provided support on the selection of sectors

to be covered by the mechanism. Elements of this study are presented on the impact assessment (¹⁸), while the full study is also made public by the Commission (¹⁹).

In addition to the qualitative study of CBAM, a dedicated quantitative assessment of impacts was also conducted with support from the Joint Research Centre of the Commission and from external expertise, the first focusing on impacts of CBAM of material products and the later focusing on impacts of CBAM on electricity. These quantitative assessments provided insight into the environment, economic and social impacts of the initiative and are made publicly available as part of the impact assessment.

Finally, the analysis rests on additional literature review, studies and research papers submitted by academics in the open public consultation and other independent studies.

- **Impact assessment**

The Regulatory Scrutiny Board issued a positive opinion with reservations on the impact assessment, including suggestions for improvement (²⁰). The Impact Assessment report was further revised along these lines, notably in ensuring that it is self-standing with regards to the problem carbon leakage, while strengthening its coherence with the proposal for the revision of the EU ETS, as well as providing better clarity on the key impacts and institutional choices and present in greater detail the views of different stakeholder groups.

The problem addressed by the CBAM is a dynamic one, namely how to succeed in reducing GHG emissions in the EU, while at the same time avoiding that these emissions reduction efforts are offset by emissions increasing outside the EU (carbon leakage). To reflect this dynamic framework, the basis against which the impact assessment was built reflected the fact that CBAM is put forward against the new agreed EU target of reducing GHG emissions by at least 55 per cent.

Six different options were assessed against this dynamic framework, all of which were designed to account of WTO requirements and the EU's international commitments such as free trade agreements concluded by the EU or the Energy Community Treaty.

The first option for a CBAM is an import carbon tax, paid by the importer when products enter the EU. Practically, the tax would be collected by customs at the border based on a tax reflecting the price of carbon in the EU combined with a default carbon intensity of the products. Importers would have the opportunity to claim a reduction of the CBAM based on their individual carbon footprint and any carbon price paid in the country of production.

The second option involves the application on imports of a system that replicates the EU ETS regime applicable to domestic production. This option entails – similar to the system of allowances under the EU ETS – the surrendering of certificates ('CBAM certificates') by importers based on embedded emission intensity of the products they import in the EU, and purchased at a price corresponding to that of the EU ETS allowances at any given point in time. These certificates will not be linked to the EU ETS system of allowances but will mirror the price of these allowances to ensure a coherent approach to the pricing under the EU ETS. A Central Administrative CBAM Authority will administer the sale of the CBAM certificates and importers will submit declarations of verified embedded emissions in the imported products to the CBAM Authority and surrender a number of CBAM certificates

¹⁸ [Link to the impact assessment will be included after their publication.]

¹⁹ [Link to full study will be included after their publication.]

²⁰ Links to the summary sheet and the positive opinion of the RSB will be included after their publication.

corresponding to the declared emissions. Such declaration and surrendering will occur – similar to that under the EU ETS – at a yearly reconciliation exercise taking place in the year following the year of importation and based on yearly trade import volumes. The carbon emission intensity of products would be based on a default value; however, importers would be given the opportunity, at the moment of the yearly reconciliation exercise, to claim a reduction of the CBAM on the basis of their individual emission performance. They would also be entitled to claim a reduction of the CBAM for any carbon price paid in the country of production (which is not rebated or in other way compensated upon export).

Option 3 operates in the same way as option 2, however the carbon price of imports is based on actual emissions from third country producers rather than on a default value based on EU producers' averages. Under this option, the importer will have to report the actual emissions embedded in the product and surrender a corresponding number of CBAM certificates.

Option 4 would apply in the same way as option 3. It consists of surrendering CBAM certificates on imported products. However, this option considers also as a theoretical scenario a 7 years transitional period during which the free allowances under the EU ETS would be gradually phased out from 50 % in 2023 to 0 % in 2030 and the CBAM would be phased in and reduced proportionally to the amount of free allowances distributed in a given sector.

Option 5 is a variant of Option 3 with a scope extended further down in the value chain. Carbon-intensive materials that are part of semi-finished and finished products would be covered along the value chain. For imports, the CBAM would again be based on the actual emissions from third country producers.

Option 6 consists of an excise duty on carbon-intensive materials covering consumption in the EU of both domestic and imported products, besides the continuation of the EU ETS including the free allocation of allowances covering production in the EU.

With respect to the effectiveness of the CBAM against its overarching objective of addressing the risk of carbon leakage in order to fight climate change by reducing GHG emissions in the EU and globally, the impact assessment showed that all the policy options achieve positive impact. Indeed, all CBAM options were found to achieve a stronger reduction of emissions in the CBAM sectors in the EU, relative to the case of higher ambition and free allocation. With regards to incentivising third country producers to move towards cleaner production processes, all policy options bring about positive results. On that criteria, the options allowing for the possibility to demonstrate actual emissions are particularly effective, with options 3, 4 and 5 also showing strong positive results. All options were found to be coherent with the EU ETS.

On providing protection against carbon leakage, options 3, 4 and 5 bring about a stronger positive impact, while options 1, 2 and 6 would be less effective. All policy options are designed in a way that respects the EU's international commitments.

CBAM will equalise the price of carbon paid between imports and domestic production.. Producers of basic materials have to pay a carbon price on their emissions. Imports of basic materials from third countries face carbon costs similar to the costs of EU producers. The possibility to demonstrate that the carbon efficiency of their product is better than the default value, would increase costs, but this also provides emission reduction incentives for the share of materials that is exported to the EU.

Overall the impact of CBAM on employment is limited. Changes in employment are largely driven by the presence (or not) of free allocation. Retaining free allocation results in a slight increase in employment in the CBAM sectors. The complete removal of free allocation in the absence of a CBAM leads to the highest employment losses. The application of the CBAM on material industrial products is likely to have limited impact on consumer prices because the measure is targeted at products upstream in the value chain and affects goods for final consumption only indirectly.

Compliance costs are assumed to arise for importers located in the EU that would be subject to the CBAM obligations. This could be done either based on a default value or by providing verified information about actual emissions. While the monitoring of these actual emissions would take place outside the EU, the responsibility – and thus costs – of providing the verification regarding this monitoring to authorities lies with the importers. For options 1, 2, 3, 4 and 5, when emissions are declared at default value, monitoring of the emissions from the production process is not necessary and therefore also cause limited costs. However, if importers decide to claim to use the actual emissions from the production process, the monitoring creates additional costs for the business, estimated to be between EUR 9.8 million and EUR 13.2 million in aggregate. Under option 6, default values have to be determined both for materials and manufactured goods. Administrative effort is relatively low for producers of materials in the EU, which means producers do not have to demonstrate the carbon intensity of their production. The estimated yearly total is between EUR 14.7 million and EUR 28.7 million.

Electricity generation is addressed separately to material products. Applying a CBAM to the electricity sector requires taking into account its uniqueness that distinguishes it from basic materials, including the methods for its transportation, through constrained, monopoly networks, and the broad set of technologies employed for its production.

In line with approaches applied to the material products, a reference value for emissions embedded in imported electricity needs to be established in the context of determining the corresponding CBAM obligation. Two alternative options are employed to determine the reference value for embedded emissions for electricity namely (a) average GHG emission intensity of the EU electricity mix and (b) average GHG emission factor of the EU electricity mix. As with other options, however, importers would still have the possibility to prove that their installation level emissions are lower than the above reference values.

On the basis of the above, the impact assessment concluded that option 4 provides clear benefits relative to all other options considered. It therefore suggested to introduce a CBAM on selected products in the form of CBAM certificates based on actual emissions with a transitional period during which the CBAM certificates to be surrendered shall be reduced in number to reflect the extent to which EU ETS allowances are still allocated free of charge in the corresponding ETS installations. This policy option ensures a high level of effectiveness for CBAM. A system based on actual emissions ensures a fair and equal treatment of all imports and a close correlation to the EU ETS which is also based on the actual emission reported by the EU ETS operators. The CBAM system will, however, need to be complemented by a possibility to base calculations on set default values to be used in situations when sufficient emission data will not be available. Moreover, during an initial transitional phase, where importers may not be able to produce yet the data required by system on actual emissions, a default value could also apply. This option will need, however, to be designed to fully respect the EU's international commitments, in particular WTO rules, and therefore it will be necessary to ensure that if a default value applies, importers are in all

cases given the opportunity to demonstrate that they perform better than such value based on their actual emissions. Moreover, with regard to the phase in of the CBAM and the corresponding phase out of the free allowances, it will need to be ensured that at no point in time over the transitional period, imports are afforded less favourable treatment than domestic EU production.

Further, the introduction of CBAM certificates based on actual emissions would protect against the risk of carbon leakage while possibly incentivising third country producers to move towards cleaner production processes.

As regards electricity the preferred option is to apply the CBAM based on the carbon emission factor including the possibility for importers to demonstrate lower emissions. Both options contribute to mitigating the risks of carbon leakage by discouraging in the mid-term horizon the build-up of carbon-intensive power generation sources in the vicinity of EU borders which might replace EU-based generators exposed to increasing carbon costs. However, the option based on the carbon emission factor displays superior effectiveness in preventing carbon leakage while keeping administrative costs low.

The choice of policy option 4 to material products and the carbon emission factor for electricity would introduce a proportionate mechanism to address climate change by reducing GHG emissions in the EU and avoiding that these emissions are replaced by emissions outside the EU. In addition, the gradual phase out of allocating EU ETS allowances for free would allow for businesses and authorities to carry out a prudent and predictable transition.

- **Regulatory fitness and simplification**

The impact assessment indicates that a CBAM would result in relatively higher compliance costs for SMEs compared to large enterprises. The exact degree of difference between the two groups could not be quantified based on the currently available data.

The fact that a CBAM is initially introduced on imports of a few basic materials and basic material products results in large businesses being the main mainly impacted ones. Therefore, the practical impact of import related measures would have little practical impact on SMEs, even though this impact would be relatively higher than for large businesses if compared on the amount imported. For this reason the impact assessment did not carry out a SME test, neither did it perform a separate SME consultation, although the views of, and implications for, SMEs have been assessed as part of the Commission's Open Public Consultation,

For these reasons also, no special measures for SMEs are foreseen in this Regulation.

- **Fundamental rights**

The proposal respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union⁽²¹⁾. In particular, it contributes to the objective of a high level of environmental protection in accordance with the principle of sustainable development as laid down in Article 37 of the Charter.

²¹ OJ C 326, 26.10.2012, p. 391.

4. BUDGETARY IMPLICATIONS

A Central Administrative CBAM Authority has to be established that will be responsible for a number of tasks. These tasks include the authorisation of CBAM importers as well as the selling and the administering of the surrender of the CBAM certificates. Additionally, the CBAM Authority will conduct the necessary reviews and audits in relation to the annual declarations of embedded emissions in imported goods to ensure that the correct number of CBAM certificates is surrendered. A central CBAM Authority for the entire EU will minimize the relevant administrative costs associated with these tasks. This is one of the reasons why the CBAM revenues are allocated to the EU budget as an own resource.

The envisaged institutional architecture for CBAM would have important implications as regards the costs of its operation. Commission research estimates that the proposed CBAM would concern 1 000 traders carrying out 239 000 import transactions on an annual basis from 510 installations outside the EU, where goods within the scope of the Regulation are produced. While this represents a large number of transactions, the estimate also indicates that they are undertaken by a fairly a limited number of traders and concern a limited number of installations.

To obtain rough estimate of the potential staffing needs of a centralised CBAM Authority, we consider three core functional areas that will need to be supported in the final CBAM design. The first relates to the core function of reviewing, assessing and approving declarations presented by authorised declarants including issuing requests for supplementary information and clarification. Assuming a maximum of 10 working days for the handling of each, this would require 50 full time equivalent positions. The second relates to the handling of complaints submitted by interested parties. Assuming that around one third of declarations could be subject to scrutiny and a maximum of 5 working days would be needed for the handling of each, this would require an additional 7.5 full time equivalent positions. Finally, for support functions related to maintenance of the IT systems including the keeping and updating of registries and handing of CBAM obligations (selling and re-purchase of CBAM certificates), an additional 18 full time equivalent positions are estimated to be needed. This last function would not be performed during the transitional period. Altogether, the implementation of the final CBAM design would imply approximately a requirement of 75 staff at a full time basis.

More information can be found on the financial statement accompanying this document.

5. OTHER ELEMENTS

- **Implementation plans and monitoring, evaluation and reporting arrangements**

As part of the mandate received by the Commission from the special European Council of 17-21 July 2020, the CBAM would need to be introduced at the latest by 1 January 2023. This timetable was confirmed in the roadmap towards the introduction of new own resources agreed by the European Parliament, the Council and the Commission on 16 December 2020.

In order to meet this ambitions timeline a simplified system of the CBAM will be applied during a transitional period of [three] years after the entry into force, in 2023. Specifically, such a period will facilitate the smooth roll out of the CBAM and impose the least burden possible on trade flows and trade operators. Simplifications include the procedures applied at the border when goods are imported and the use of default values to determination the CBAM obligation.

The Commission will ensure that arrangements are in place to monitor and evaluate the functioning of the CBAM, including its enforcement against fraudulent practices, and evaluate it against the main policy objectives. Given that CBAM is one of the policy proposals under the ‘Fit for 55 Package’, monitoring and evaluation could be carried out in alignment with the other policies of the package.

Three years after the end of the transitional period, the Commission will report to the European Parliament and the Council on the application of the Regulation and, if appropriate, will make a legislative proposal to extend the CBAM to other goods than those listed in Annex I. For this, it is necessary to monitor the effect of CBAM on the shortlisted sectors.

- **Detailed explanation of the specific provisions of the proposal**

Chapter I sets out general provisions, including subject matter and scope of the Regulation (Articles 1 and 2) and definitions of key terms used in the Regulation (Article 3). Annex I (list of goods within the scope) and Annex II (countries and territories of origin excluded from the application of the measure).

Chapter II contains provisions on obligations and rights of declarants of goods. More specifically, it contains provisions on the conditions to apply for an authorisation to import CBAM goods (Articles 4 and 5), the obligation of an authorised declarant to submit an annual CBAM declaration by 31 May each year and the content of this declaration (Article 6), the principles for the calculation of the emissions embedded in goods imported to the EU during the previous calendar year (Article 7, as further outlined in Annex III) and the process of independent verifiers verifying these emissions (Article 8, complemented by reporting requirements and verification principles in Annexes IV and V). Also, it sets out the principles for taking into account a carbon price paid in third countries (Article 9) and the general obligation for an authorised declarant to surrender CBAM certificates that corresponds to declare embedded emissions (Article 10). In its declaration, a declarant may ask that the carbon price paid in the country of origin is taken into account for reducing the yearly number of certificates to surrender.

Chapter III (Article 11) gives operators of an installation in a third countries the possibility to request being included in the CBAM Registry. Once registered, the operator may opt to disclose information of embedded emissions verified at the time of registration to an authorised declarant. The declarant can use that information during a two years period with no further verification required of the embedded emissions when importing the same goods to the EU.

Under Chapter IV, there are the general provisions on the CBAM Authority: the administrative set up, decisions and disclosure of information (Articles 12, 13 and 14). Also, the chapter contains provisions on the main characteristics of the CBAM Registry (Articles 15 and 16) and decisions of the Authority regarding authorisation to import (Article 17), accreditation of verifiers (Article 18) and review of CBAM declarations (Article 19). Finally, the management of certificates (Article 20) and the allocation of revenues generated (Article 21).

Chapter V contains provisions regarding CBAM certificates. Articles 22 to 26 establish detailed rules on CBAM Authority’s role in the life cycle of CBAM certificates, from their sale to the control of their surrender or, if any, re-purchase, and their final cancellation. Articles 22 and 23 concern in detail the sale and the calculation of the price of the certificates. Article 24 lays down the procedures for the CBAM Authority to ensure that each declarant

fulfil its surrender obligation. Article 25 establishes the right of a declarant to ask the CBAM Authority to re-purchase a limited number of CBAM certificates remaining on its account after surrender. Article 26 specifies that, each year by 31 July, the CBAM Authority is required to cancel the certificates remaining in the account of each declarant after surrender and re-purchase, if any.

Chapter VI deals with how Customs Authorities should deal with the administration of goods at the border and sets in Article 27 out provisions relating to these procedures.

Under Chapter VII, penalties for no compliance are set in Article 28 and a special provision on circumvention is provided in case the mechanism is abused, Article 29.

Chapter VIII contains provisions regarding the exercise of the delegation to the Commission to adopt delegated acts and its urgency procedure (Articles 30 and 31) and examination procedure for implementing acts (Article 32). The power to adopt delegated acts is referred to in Articles 2 and 29. Articles 2, 5 to 11, 13, 15 to 19, 22 to 28, 34 40 to 43 and 45 contain provisions on implementing powers.

Chapter IX contains provisions in Article 33 on the evaluation of the Regulation and its possible review.

Chapter X (Article 34) deals with the reduction of the CBAM obligation to reflect the transitional allocation of EU ETS allowances for free in installations producing the same kinds of goods within the EU as are covered by the CBAM Regulation.

Last, Chapter XI contains specific provisions to be applied during an initial transitional period. In those provisions, a simplified CBAM will apply for the first years after the entry into force of the Regulation. This transitional period will have a duration of [three] years, as established in Article 35, and it will not include a yearly declaration process but will entrust the settlement of the CBAM debt at the border before permitting the CBAM goods to enter into free circulation (Articles 36 and 39). The chapter lays down the necessary provisions for calculating the CBAM charge and the default values during the transitional period (Articles 38, 40 and 41), the possibility to claim reimbursement of the CBAM charge on the basis of actual embedded emission values (Article 42) and the calculation of the compensation for a carbon price paid in a third country (Article 43). Further the chapter contains provisions on the allocation of revenues generated (Article 37), control of reimbursements and compensations (Article 44) as well as the interaction between CBAM and the transitional allocation of EU ETS allowances for free (Article 45).

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
establishing a carbon border adjustment mechanism

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,
Having regard to the Treaty on the Functioning of the European Union, and in particular Article 192(1) thereof,
Having regard to the proposal from the European Commission,
After transmission of the draft legislative act to the national parliaments,
Having regard to the opinion of the European Economic and Social Committee ⁽²²⁾,
Having regard to the opinion of the Committee of the Regions ⁽²³⁾,
Acting in accordance with the ordinary legislative procedure,
Whereas:

- (1) The Commission has, in its Communication of 11 December 2019 entitled ‘The European Green Deal’ ⁽²⁴⁾, set out a new growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy, where there are no net emissions of greenhouse gases (‘GHG’) in 2050 and where economic growth is decoupled from resource use. It also aims to protect, conserve and enhance the EU’s natural capital, and protect the health and well-being of citizens from environment-related risks and impacts. At the same time, this transition must be just and inclusive, leaving no one behind.
- (2) The Intergovernmental Panel on Climate Change’s (IPCC) Special Report on the impacts of global warming of 1.5 °Celsius above pre-industrial levels and related global GHG emission pathways ⁽²⁵⁾ provides a strong scientific basis for tackling climate change and illustrates the need to step up climate action. It confirms that GHG emissions need to be urgently reduced, and that climate change needs to be limited to 1.5 °Celsius, in particular to reduce the likelihood of extreme weather events.
- (3) The Paris Agreement sets out a long-term goal to keep the global temperature increase to well below 2 °Celsius above pre-industrial levels and to pursue efforts to keep it to

²² OJ C, n’t we specify this in the regulation, p. [...].

²³ OJ C, [...], p. [...].

²⁴ Commission Communication - The European Green Deal, COM(2019) 640 final of 11 December 2019

²⁵ IPCC, 2018: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)].

- 1.5 °Celsius above pre-industrial levels ⁽²⁶⁾, and stresses the importance of adapting to the adverse impacts of climate change ⁽²⁷⁾ and making finance flows consistent with a pathway towards low GHG emissions and climate-resilient development ⁽²⁸⁾.
- (4) The EU has been pursuing an ambitious policy on climate action and has put in place a regulatory framework to achieve its 2030 GHG emission reduction target. The legislation implementing this target consists, inter alia, of Directive 2003/87/EC of the European Parliament and of the Council ⁽²⁹⁾, which establishes a system for GHG emission allowance trading within the EU ('EU ETS') and delivers harmonised pricing of GHG emissions at EU level for energy-intensive sectors and subsectors, Regulation (EU) 2018/842 of the European Parliament and of the Council ⁽³⁰⁾, which introduced national targets for reduction of GHG emissions by 2030, and Regulation (EU) 2018/841 of the European Parliament and of the Council ⁽³¹⁾, which requires Member States to balance GHG emissions and removals from land use, land use change and forestry.
 - (5) In its proposal for a Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law) ⁽³²⁾, the Commission has proposed a new EU target for 2030 of reducing GHG emissions by at least 55 per cent compared to levels in 1990 on which a provisional agreement was reached by the co-legislators on 21 April 2021 ⁽³³⁾.
 - (6) To deliver on these GHG emissions reductions, the Commission proposes to revise where necessary all relevant policy instruments by June 2021 in a 'Fit for 55 Package', which covers in particular the review of sectoral legislation in the fields of climate, energy, transport and taxation.
 - (7) As long as the EU's international partners do not share the same level of climate ambition, and differences in the price put on GHG emissions remain, there is a risk of carbon leakage. Carbon leakage refers to the situation that occurs if, for reasons of differing ambitions related to climate policies, businesses in certain industry sectors or subsectors were to transfer production to other countries with less stringent emission constraints or imports from these countries would replace equivalent but less GHG intensive products due to the difference in climate policy stringency. This could

²⁶ Article 2(1)(a) of the Paris Agreement.

²⁷ Article 2(1)(b) of the Paris Agreement.

²⁸ Article 2(1)(c) of the Paris Agreement.

²⁹ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

³⁰ Regulation (EU) 2018/842 of the European Parliament and of the Council of 30 May 2018 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement and amending Regulation (EU) No 525/2013 (OJ L 156, 19.6.2018, p. 26).

³¹ Regulation (EU) 2018/841 of the European Parliament and of the Council of 30 May 2018 on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry in the 2030 climate and energy framework, and amending Regulation (EU) No 525/2013 and Decision No 529/2013/EU (OJ L 156, 19.6.2018, p. 1).

³² Proposal for a Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law).

³³ Provisional agreement on the European Climate Law:
https://ec.europa.eu/commission/presscorner/detail/en/ip_21_1828

lead to an increase in their total emissions globally, undermining the effectiveness of the EU's emission mitigation policies.

- (8) The single effective way to do this is by taking action at the level of the EU. Any initiative needs to be implemented in a way that provides importers, regardless of country of origin and port of entry or destination within the EU, with uniform conditions and incentives for GHG emission reductions that are equivalent to those of domestic producers.
- (9) The initiative for a carbon border adjustment mechanism ('CBAM') is part of the 'Fit for 55 Package' and will serve as an essential element of the EU toolbox to meet the objective of a climate-neutral EU by 2050 in line with the Paris Agreement by addressing risks of carbon leakage resulting from the increased EU climate ambition.
- (10) Existing mechanisms to address risk of carbon leakage laid down in Articles 10a(6) and 10b of Directive 2003/87/EC are free allocation of EU ETS allowances and in some cases financial measures to compensate for increases in electricity prices resulting from the inclusion of the costs for GHG emissions due to the EU ETS (indirect emission costs) to operators of installations from sectors and sub-sectors at a significant risk of carbon leakage. However, free allocation under the EU ETS weakens the price signal that the system provides for the installations receiving it compared to full auctioning and thus affects the incentives for investment into further abatement of emissions. At the same time, as the EU increases its climate ambition, the divergence with third countries level of climate action is expected to widen with an increased risk of carbon leakage for the EU. The CBAM would equalise the price of carbon between domestic products and imports and ensure the EU's climate objectives are not undermined by production relocating to countries with less ambitious policies.
- (11) The combined and transitional application of EU ETS allowances allocated free of charge and of the CBAM should in no case result in more favourable treatment for EU products compared to imported goods.
- (12) This Regulation is expected to also encourage the use of more energy-efficient technologies by third countries producers, including combined heat and power technology, producing less emissions per unit of output.
- (13) As an instrument to prevent carbon leakage, the CBAM should ensure that imported products are subject to a carbon price equivalent to the one they would have paid under the EU ETS, had they been produced in the EU.
- (14) This Regulation should apply to goods imported in the EU with the exception of countries and territories outside the EU customs territory applying the EU ETS as detailed in Annex II. It should not be applied to goods originating in territories which, despite being part of the Union, are not part of the customs territory.
- (15) The territorial application of this Regulation should be extended to the continental shelf and to the Exclusive Economic Zone declared by Member States pursuant to the United Nations Convention on the Law of the Sea (UNCLOS)⁽³⁴⁾, in analogy with Regulation 2018/825 of the European Parliament and of the Council⁽³⁵⁾ with the

³⁴ UN General Assembly, Convention on the Law of the Sea, 10 December 1982

³⁵ Regulation (EU) 2018/825 of the European Parliament and of the Council of 30 May 2018 amending Regulation (EU) 2016/1036 on protection against dumped imports from countries not members of the European Union and Regulation (EU) 2016/1037 on protection against subsidised imports from countries not members of the European Union (OJ L 143, 7.6.2018, p. 1).

purpose of preventing the risk of carbon leakage in offshore installations (like artificial platforms and wind farms).

- (16) The emissions to be covered by the CBAM should correspond to those GHG covered by the EU ETS in Directive 2003/87/EC, namely carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). As for its scope, CBAM should apply to direct emissions from the production of basic materials and basic material products up to the time of import, as well as related indirect emissions, mirroring the EU ETS system.
- (17) EU ETS and CBAM have the common objective of pricing emissions embedded in the same sectors and goods through the use of specific allowances or certificates. Both systems have a regulatory nature and are only justified by the need to curb emissions, in line with the environmental objective of the EU.
- (18) However, the different operative context of the two instruments justifies certain adaptations. While EU ETS defines polluting limits to certain sectors and allows tradability of certificates (so called ‘cap and trade system’), CBAM does not establish quantitative limits to import, as it would be at odds with trade rules. Moreover, while EU ETS tackles installations based in the EU, CBAM is applied to certain goods produced outside the EU.
- (19) A series of specific features in the CBAM system compared to the EU ETS should therefore be provided for in the Regulation, including on calculation of the price of CBAM certificates, on certain limits to the possibilities to trade certificates and to store them over time, as well as on applicable penalties in case of non-compliance. The EU ETS is a cap and trade system in which the capacity to trade allowances is the core of the price setting mechanism. Conversely the objective of CBAM is to reflect the price resulting of the EU ETS, giving operators the possibility to store and trade certificates could allow them paying a price not reflecting the price resulting from the EU ETS. The limits to the possibilities to trade CBAM certificates and to store them over time in particular is justified by the need to hinder the climate objective of this regulation. Such unintended consequence may stem from speculative behaviours of operators, whereby tradability of CBAM certificates could make their price to progressively depart from EU ETS price. This could result in altering the incentive to decarbonisation between domestic and imported products, favouring carbon leakage and impairing the overarching climate objective of CBAM.
- (20) Further simplified arrangements should be designed since CBAM applies to import of goods into the customs territory of the Union rather than to their production. One of these simplification should consist in a declarative system where declarants should report the total emissions embedded in goods imported in a given year as certified by an independent verifier. Under this system, the CBAM Authority should control declarations as part of its random and targeted auditing activities.
- (21) A different timing compared to that in place for the EU ETS should be also established to avoid any potential bottleneck resulting from obligations for authorised verifiers under this Regulation and the EU ETS. Each declarant should therefore submit a CBAM declaration and surrender the corresponding number of CBAM certificates by 31 May each year to comply with its obligations. The CBAM Authority should eventually proceed to cancel CBAM certificates by 31 July of each year following the year of the declaration.

- (22) In terms of sanctions, the Regulation should establish penalties equal to three times the average price of CBAM certificates in the previous year for each certificate that the authorised declarant did not surrender. A fixed amount is not deemed sufficient given the increasing trend of EU carbon price and to higher risk of misreporting resulting from a declarative system compared to the EU ETS which has very comprehensive monitoring reporting and verification rules. Similarly, practices of trade circumvention should be tackled by extending CBAM obligations to products slightly modified with the sole aim of avoiding surrendering adequate certificates.
- (23) The product coverage of CBAM should be framed by the sectors and emissions covered by the EU ETS as this scheme is the most comprehensive GHG emissions regulatory scheme in the EU. A number of EU regulations outside the EU ETS legal acts (Directive 2003/87/EC) address efforts to reduce GHG emissions in the EU, including Regulation 2018/842 and Regulation 2019/631 of the European Parliament and the Council ⁽³⁶⁾. However, more than 40 per cent of EU emissions are covered by the EU ETS. This comprehensive feature suggests selecting products for CBAM among the sectors subject to EU ETS.
- (24) Setting a product scope for CBAM reflecting the EU ETS will contribute to ensuring that imported products are granted a treatment no less favourable than that accorded to like products of national origin.
- (25) Certain sectors covered by the EU ETS are more likely than others to be subject to the risk of carbon leakage. They are detailed in the Commission Delegated Decision No. 2019/708 of 15 February 2019 ⁽³⁷⁾.
- (26) In order to pursue a robust climate policy and to efficiently curb GHG emissions the CBAM should be applied to a significant part of GHG emissions in the EU ETS, in selected sectors at risk of carbon leakage, starting with sectors where this risk is most significant, as well as in electricity.
- (27) While the EU ETS targets certain sectors, CBAM should target certain products and this transition from the sector to the product approach requires certain adaptations in order to unambiguously identify imported goods by way of their classification in the Combined Nomenclature ⁽³⁸⁾ and linking them to reference values of embedded emissions.
- (28) The list of goods under this Regulation should be selected after a careful analysis of their relevance in terms of cumulated GHG emissions, their risk of carbon leakage and the balance in terms of GHG emissions while limiting complexity and administrative effort.
- (29) Certain products at risk of carbon leakage listed in order of cumulated emissions should not at this stage be addressed in the CBAM regulation, due to certain particular characteristics.

³⁶ Regulation (EU) 2019/631 of the European Parliament and of the Council of 17 April 2019 setting CO₂ emission performance standards for new passenger cars and for new light commercial vehicles, and repealing Regulations (EC) No 443/2009 and (EU) No 510/2011 (OJ L 111, 25.4.2019, p. 13).

³⁷ Commission Delegated Decision (EU) 2019/708 of 15 February 2019 supplementing Directive 2003/87/EC of the European Parliament and of the Council concerning the determination of sectors and subsectors deemed at risk of carbon leakage for the period 2021 to 2030 (OJ L 120, 8.5.2019, p. 2).

³⁸ Commission Implementing Regulation (EU) 2020/1577 of 21 September 2020 amending Annex I to Council Regulation (EEC) No 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff (OJ L 361, 30.10.2020, p. 1).

- (30) In particular, organic chemicals are not targeted due to technical limitations that do not allow to clearly define the embedded emissions of imported products. In particular, for these products the applicable benchmark under the EU ETS is a basic parameter, which does not allow for the unambiguous allocation of emissions embedded in individual imported products. A more targeted allocation to organic chemicals will require more data and analysis.
- (31) Similar technical constraints apply to refinery products, whereby it is not possible to unambiguously assign GHG emissions to each refinery output product. The relevant benchmark in the EU ETS does not directly relate to specific products, such as gasoline, diesel or kerosene, but to all the refinery output.
- (32) Analogue considerations can be drawn for stainless steel goods under heading 7220 of the Combined Nomenclature. In this case a wide variety of specialised goods, with an extensive range of technical applications and frequent custom oriented production, makes it extremely complex to define and unambiguously assign GHG emissions.
- (33) Conversely, aluminium products should be included in CBAM, as they embed high level of emissions when taking into account not only direct but also indirect emissions.
- (34) Similarly, tubes and fittings should be included in the scope of CBAM despite their low level of embedded emissions, as their exclusion would increase the likelihood of circumventing the enclosure of steel products in CBAM by modifying the pattern of trade towards downstream products.
- (35) Import of electricity should also be included in the scope of the Regulation, as this sector is responsible for 30 per cent of GHG emissions in the EU. According to Commission studies the enhanced EU climate ambition will increase the gap in carbon costs between electricity production in the EU and abroad. Combined with the progress in connecting the EU electricity grid to that of its neighbours this will increase the risk of carbon leakage and consequently import of electricity, a significant part of which is sourced from coal-fired power plants, without application of CBAM to this sector.
- (36) As importers of goods that should be covered by the scope of this Regulation should not have to fulfil its CBAM obligations at the time of importation, specific administrative measures should be applied to assure that importers are willing and able to fulfil their obligations at a later stage. Therefore, importers should only be entitled to import CBAM goods, upon prior authorisation by the CBAM Authority after having provided sufficient information on their financial and overall liability. In certain cases where this liability cannot be sufficiently determined, an importer should nevertheless be able to be authorised, if a financial guarantee is provided.
- (37) The CBAM should be based on a declarative system where each single importer, acting as authorised declarant, annually declare to the CBAM Authority embedded emissions in goods imported to the EU and calculates the number of CBAM certificates to surrender corresponding to the declared emissions. Each authorised declarant should comply with the obligations arising from its own declaration by 31 May of each year for all imports of goods made during the previous calendar year.
- (38) To facilitate the yearly cycle of compliance of importers' obligations for goods covered by this Regulation, a common framework for the sale, surrender, re-purchase and cancellation of CBAM certificates should be established. Under this common framework, the CBAM Authority should be the responsible body for the administration of sale, surrender, re-purchase and cancellation of CBAM certificates.

- (39) CBAM certificates differ from EU ETS allowances for which tradability is an essential feature, and it should be therefore appropriate to simplify the system and calculate the price of CBAM certificates in a longer timeframe (on a weekly basis) than the timeframe established in the EU ETS (on a daily basis).
- (40) To fully comply with its CBAM obligations, declarants should surrender the number of CBAM certificates corresponding to the declared embedded emissions for the goods imported during the previous year. At the same time, the CBAM Authority should re-purchase, in a limited percentage, the CBAM certificates that remained in the account of declarants. This limitation should be counterbalanced by entitling each declarant to purchase CBAM certificates even after the end of the calendar year and until the submission deadline of the declaration. In so doing, declarants should be in a position to quantify the adequate number of CBAM certificates to be surrendered.
- (41) To simplify the CBAM system and close the life-cycle of CBAM certificates accordingly, the CBAM Authority should be in charge of, and process, cancellation of CBAM certificates that remained in the account of each authorised declarant after their surrender and, where relevant, repurchase, at the latest by 31 July of the year following the year of the declaration.
- (42) The physical characteristics of electricity as a product, in particular the impossibility to follow the actual flow of electrons, justifies a slightly different design for the CBAM. A default value representing the GHG emissions intensity of the country of origin should be used as a standard approach and resort to the calculation of actual emissions of the imported electricity in individual transactions only when claimed by importers.
- (43) Electricity trade is markedly different from trade in other goods, notably because it is traded via interconnected electricity grids, using power exchanges and specific forms of trading (e.g. market coupling - a densely regulated form of electricity trade which allows to aggregate bids and offers EU-wide as set out in Commission Regulation (EU) 2015/1222 ⁽³⁹⁾).
- (44) Electricity used to produce goods can be produced from all the different energy sources in the mix. In the absence of more accurate information of the electricity source to produce the imported goods, the average mix of energy sources used to produce electricity in the country of origin and the corresponding embedded emissions should be used as a proxy for calculating emissions indirectly embedded in goods.
- (45) In order to avoid double charges on GHG emissions, it should be possible for an authorised declarant to claim a reduction in the number of CBAM certificates to be surrendered in proportion to the carbon price already paid on these emissions in other jurisdictions and, the Union may where possible, negotiate agreements with a view to simplify the process of such compensation.
- (46) In case a third country applies a carbon pricing system equivalent to and as effective as the EU ETS, and such system is either linked to the EU ETS or the third country operators directly participate in the EU ETS, it should be possible to consider the exclusion of goods originating in these third countries from the application of the CBAM according to strict criteria. In particular, the price charged in third countries

³⁹ Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (OJ L 197, 25.7.2015, p. 24).

- should be homogeneously applied in the whole country and should be effectively charged on products exported to the EU without any rebate.
- (47) Countries participating in the Treaty establishing an Energy Community⁽⁴⁰⁾ and Eastern Partners part of Deep and Comprehensive Free Trade Agreement are committed to decarbonisation processes that might eventually result in their participation in the EU ETS. This process of alignment should be assessed at the end of the CBAM transitional period with a view to verify their compliance with the conditions laid down in the Regulation for exclusion.
- (48) Integration of neighbouring third countries into the Union electricity market is an important prerequisite for those third countries to accelerate their transition to energy systems with high shares of renewable energies. Market coupling based on agreements with the Union and application of Union law for electricity enables third countries to better integrate electricity from renewable energies into the electricity market, to exchange such electricity in an efficient manner in a wider area, balancing supply and demand with the larger Union market, and thereby reduce the carbon intensity of their electricity generation. Integration of third countries into the Union electricity market also significantly contributes to security of electricity supplies in those third countries and neighbouring Member States. When third countries are closely integrated into the Union electricity market via market coupling, technical adaptation to the application of CBAM to electricity exported from them could be considered.
- (49) A transitional period should apply for the first years after the entry into force of the Regulation. A simplified CBAM system should apply, with the objective of facilitating a smooth roll out of the mechanism reducing the risk of disruptive impacts on trade flows and limiting the initial administrative burden for persons importing goods into the customs territory of the Union while still fulfilling the purpose of preventing the risk of carbon leakage. Among the simplifications of the mechanism, the CBAM obligation should be determined by default values on the basis of data available on embedded emissions of like goods in the EU and the customs declarants should fulfil the CBAM obligation by paying a CBAM charge upon importation. Still, the system should allow for a follow-up revision of the obligation based on verified embedded emissions in the imported goods as well as ensuring compensation for a carbon price paid on the embedded emissions in the country of origin.
- (50) The Commission should evaluate the implementation of this Regulation three years after the end of the transitional period and report to the European Parliament and the Council thereon. To enhance climate actions towards the objective of a climate neutral EU by 2050, the report of the Commission should particularly focus on the impact of this Regulation on the goods listed in Annex I to assess whether the Regulation could be extended to other goods at risk of carbon leakage as well as to goods further down the value chain that could be subject to the risk of carbon leakage in the future.
- (51) Notwithstanding the above, a dialogue with the third countries should continue and there should be space for cooperation and solutions that could inform the specific choices that will be made on the details of the design of the measure during the implementation.

⁴⁰ Council Decision 2006/500/EC of 29 May 2006 on the conclusion by the European Community of the Energy Community Treaty (OJ L 198, 20.7.2006, p. 15).

- (52) During the transitional period, the Commission should strive to engage in an even handed manner and in line with the international obligations of the EU, with the third countries whose trade to the EU is affected by this Regulation, to explore possibilities for dialogue and cooperation with regard to the implementation of specific elements of the Mechanism set out this Regulation and related implementing acts.
- (53) This Regulation respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union. In particular, it guarantees a right of administrative and jurisdictional appeal against decisions of the CBAM Authority and of the Commission, adversely affecting rights of individuals.
- (54) The provisions of this Regulation interact with the Regulation (EU) 2016/679 of the European Parliament and of the Council (General Data Protection Regulation or ‘GDPR’) ⁽⁴¹⁾ and Regulation (EU) 2018/1725 of the European Parliament and of the Council ⁽⁴²⁾ in several instances where personal data become relevant and available to persons or authorities entrusted to perform their obligations under the same Regulation. For this reason, this Regulation should include specific provisions and safeguards on data protection that comply with the EU Regulations in force in this field. Additionally, any possible negative impact on personal data should be minimised by making appropriate use of IT and procedural measures.
- (55) The Commission should be empowered to supplement the list of goods in Annex I by means of delegated acts pursuant to Article 290 of the Treaty on the Functioning of the European Union (‘TFEU’) to the extent necessary to prevent the risk of circumvention of the provisions of this Regulation. In this context, practises of circumvention occurs in situations whereby evidences show that CBAM provisions are abused, including cases in which a change in the pattern of trade between third countries and the Union or between individual companies in relation to goods covered by this Regulation have insufficient due cause or economic justification other than avoiding obligations laid down in this Regulation.
- (56) In order to exclude from CBAM third countries fully integrated into, or linked, to the EU ETS, the Commission should be empowered to amend the list of countries in Annex II by means of delegated acts pursuant to Article 290 TFEU. To that end, the following alternative conditions should be taken into account: (i) the EU ETS established pursuant to Directive 2003/87/EC applies to these countries or territories; (ii) third countries apply a domestic GHG emissions trading system which is fully integrated into the EU ETS; (ii) an agreement has been concluded between the third country and the Union linking the EU ETS and the third country emissions trading system.
- (57) It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level, and that those consultations be conducted in accordance with the principles laid down in the Interinstitutional

⁴¹ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (OJ L 119, 4.5.2016, p. 1).

⁴² Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39).

Agreement on Better Law-Making of 13 April 2016 ⁽⁴³⁾. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and the Council receive all documents at the same time as Member States' experts, and their experts systematically have access to meetings of Commission expert groups dealing with the preparation of delegated acts.

- (58) In order to ensure uniform conditions for the implementation of this Regulation, implementing powers should be conferred on the Commission. Those powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council ⁽⁴⁴⁾.
- (59) The financial interests of the EU should be protected through proportionate measures throughout the expenditure cycle, including the prevention, detection and investigation of irregularities, the recovery of funds lost, wrongly paid or incorrectly used and, where appropriate, administrative and financial penalties.

HAVE ADOPTED THIS REGULATION:

Chapter I

General provisions

Article 1 *Subject matter*

1. This Regulation establishes a carbon border adjustment mechanism (the 'mechanism') for addressing greenhouse gas emissions embedded in the goods referred to in Annex I, upon their importation into the customs territory of the Union, in order to prevent the risk of carbon leakage.
2. The mechanism completes the system established for greenhouse gas emission allowance trading within the Union by Directive 2003/87/EC by applying an equivalent regime to imports into the customs territory of the Union.
3. For goods referred to in Annex I, the mechanism is an alternative to the mechanisms established under Directive 2003/87/EC to prevent the risk of carbon leakage, namely financial measures referred to in Article 10a(6) of Directive 2003/87/EC and the allocation of allowances free of charge in accordance with Article 10b of Directive 2003/87/EC.

Article 2 *Scope*

1. This Regulation applies to goods listed in Annex I, originating in countries and territories outside of the customs territory of the Union, with the exception of countries and territories listed in Annex II, in sectors and subsectors determined in the list established pursuant to Article 10b of Directive 2003/87/EC, when those goods, or processed products from those goods as resulting from the inward processing procedure referred to in Article 256 of Regulation (EU) No 952/2013 of

⁴³ OJ L 123, 12.5.2016, p. 1.

⁴⁴ Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by the Member States of the Commission's exercise of implementing powers (OJ L 55, 28.2.2011, p. 13).

the European Parliament and of the Council⁽⁴⁵⁾, are imported into the customs territory of the Union.

2. Importation of goods listed in Annex I shall include situations where those goods are brought to the continental shelf or the exclusive economic zone of a Member State.
3. Imported products are considered as originating in third countries according to non-preferential rules of origin as defined in Article 59 of Regulation (EU) No 952/2013.
4. The Commission shall adopt delegated acts with a view to extend the list in Annex I to slightly modified products upon evidence of circumvention.
5. A country or a territory outside the customs territory of the Union shall be listed in Annex II if one of the following conditions is satisfied:
 - (a) the Union greenhouse gas Emission Trading System ('EU ETS') established pursuant to Directive 2003/87/EC applies to this country or territory;
 - (b) the country or territory applies a domestic greenhouse gas emission trading system which is fully integrated into the EU ETS or an agreement has been concluded between the third country and the Union fully linking the EU ETS and the third country emission trading system;
 - (c) the country or territory applies a domestic greenhouse gas emission trading system which the Commission has determined to be compatible and equivalent to, and as effective as, the EU ETS, after taking into account all relevant elements including the carbon price imposed by such system;
 - (d) the territory constitutes a territory which despite being part of the territory of the Union is exempted from the application of Union customs duties by virtue of an act of accession of a Member State to the Union.
6. The Commission shall adopt delegated acts to amend the lists in Annex II in accordance with paragraph 5, by taking into account that the third country is fully integrated into the EU ETS or an agreement has been concluded between the third country and the Union fully linking the EU ETS and the third country emission trading system.
7. The Commission shall adopt implementing acts, to specify the conditions for applying the mechanism on goods brought to the continental shelf or the exclusive economic zone of a Member State, . Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(32).

Article 3 *Definitions*

For the purposes of this Regulation, the following definitions apply:

- (a) 'greenhouse gases' means greenhouse gases as defined in Article 3(c) of Directive 2003/87/EC;
- (b) 'emissions' means emissions as defined in Article 3(b) of Directive 2003/87/EC;
- (c) 'good' means a good listed in Annex I;

⁴⁵ Regulation (EU) No 952/2013 of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code (OJ L 269, 10.10.2013, p. 1).

- (d) ‘third country’ means a country or territory outside the customs territory of the Union.
- (e) ‘continental shelf’ means the continental shelf as defined in the United Nations Convention on the Law of the Sea;
- (f) ‘exclusive economic zone’ means the exclusive economic zone as defined in the United Nations Convention on the Law of the Sea and which has been declared as exclusive economic zone by a Member State pursuant to the United Nations Convention on the Law of the Sea;
- (g) ‘EU ETS’ means the system for greenhouse gas emissions allowance trading within the Union as defined in Article 1 of Directive 2003/87/EC;
- (h) ‘importation’ means the release for free circulation provided for in Article 201 of Regulation (EU) No 952/2013 of the European Parliament and of the Council;
- (i) ‘declarant’ means a person lodging a customs declaration for release for free circulation in its own name and on its own behalf or a person on whose behalf such a declaration is lodged in accordance with Regulation (EU) No 952/2013;
- (j) ‘authorised declarant’ means a declarant that is authorised by the CBAM Authority to import goods;
- (k) ‘person’ means a natural person, a legal person and any association of persons which is not a legal person but which is recognised under Union or national law as having the capacity to perform legal acts;
- (l) ‘embedded emissions’ means direct emissions and indirect emissions released during the production of a good and its upstream products applying the principles laid down in Articles 7 and 8 and the system boundaries relating to each good;
- (m) ‘surrender’ means the accounting of CBAM certificates by an authorised declarant against its declared embedded emissions in imported goods;
- (n) ‘CBAM certificate’ means a certificate in electronic format corresponding to one tonne of CO_{2e} emissions embedded in a good imported by an authorised declarant, that is sold, surrendered, re-purchased and cancelled in accordance with this Regulation;
- (o) ‘default value’ means a value that is calculated or drawn from secondary emissions data representing embedded emissions in an imported good as opposed to actual emissions, which results from the production of that good;
- (p) ‘carbon price’ means the monetary amount paid in a third country in the form of a tax or emission allowances under a greenhouse gas emissions trading system, calculated on greenhouse gases covered by such a measure and released during activities listed in Annex I of Directive 2003/87/EC, irrespective of the thresholds set in that Annex;
- (q) ‘installation’ means an installation as defined in Article 3(e) of Directive 2003/87/EC;
- (r) ‘operator’ means an operator as defined in Article 3(f) of Directive 2003/87/EC;
- (s) ‘tonne of CO_{2e}’ means one tonne of carbon dioxide (CO₂) or an amount of any other greenhouse gas with an equivalent global-warming potential as defined in Article 3(j) of Directive 2003/87/EC;

- (t) ‘EU ETS allowance’ means an allowance as defined in Article 3(a) of Directive 2003/87/EC;
- (u) ‘like product’ means a product which is identical, that is to say, alike in all respects, to the product under consideration, or, in the absence of such a product, another product which, although not alike in all respects, has characteristics closely resembling those of the product under consideration;
- (v) ‘explicit capacity allocation’ means the allocation of cross-border transmission capacity separate from the trade of electricity;
- (w) ‘direct emissions’ means emissions taking place as part of a production process of goods of which the producer has direct control, including emissions from the production of heating and cooling consumed during the production process but produced by another person than the producer;
- (x) ‘indirect emissions’ means greenhouse gas emissions from the production of electricity which is consumed during the production process of goods;
- (y) ‘production processes’ means the chemical and physical processes carried out to produce a relevant good in stationary installations. For the purposes of this Regulation, the system boundaries of production processes are limited to greenhouse gases and activities listed in Annex I of Directive 2003/87/EC, no matter if the installation is located in the Union or not, irrespective of the thresholds set in that Annex.

Chapter II

Obligations and rights of authorised declarants of goods

Article 4 *Importation of goods*

1. Importation of goods shall, under the conditions laid down in this Regulation, only be made by a declarant that is authorised by the CBAM Authority in accordance with Article 17.
2. The authorised declarant of the goods shall be held liable for failure to comply with the obligations set out in this Regulation.

Article 5 *Application for an authorisation to import goods*

1. Any person may apply to the CBAM Authority for an authorisation to import goods.
2. By way of derogation from the first subparagraph, where transmission capacity for the import of electricity is allocated via explicit capacity allocation, the person to which capacity has been allocated for import and which nominates this capacity for import is regarded as an authorised declarant for the purposes of this Regulation. Imports are to be measured per border for time periods not longer than one hour and there is no netting of exports or transits.
3. The application for an authorisation shall include the following information on the applicant:

- (a) name and contact information, as well as authorised signatories;
 - (b) EORI number ⁽⁴⁶⁾;
 - (c) national registration number or other proof of the permanent establishment of the business in the Union;
 - (d) main economic activity carried out in the Union at a 4-digit level (NACE-4 code ⁽⁴⁷⁾);
 - (e) certification by the competent national authority in the Member State where the main economic activity is carried out that the applicant is not subject to an outstanding recovery order for national tax debts;
 - (f) confirmation in accordance with Article 17(1)(a);
 - (g) verified financial statements for each of the two preceding financial years;
 - (h) estimated monetary value and volume of imports of goods to the customs territory of the Union by the applicant as declarant, specified by the type of goods in accordance with Annex I, for the current and the following financial year;
 - (i) names and contact information of the persons the applicant is acting on behalf of as declarant.
4. The applicant may at any time withdraw its application.

Article 6
Content of a CBAM declaration

1. In accordance with the calculation methodology set out in Article 7, each authorised declarant shall, by 31 May each year, submit a CBAM declaration to the CBAM Authority.
2. The declaration shall contain the following:
 - (a) the total quantity of each type of good imported during the calendar year, expressed in megawatt hours for electricity and in tonnes for other goods;
 - (b) the total emissions embedded in each type of good, as calculated under Article 7;
 - (c) the number of CBAM certificates corresponding to the total embedded emissions in imported goods that the authorised declarant states to be surrendered in accordance with Articles 7 and 10.
3. Where the imported goods are processed products resulting from the inward processing procedure as referred to in Article 256 of Regulation (EU) No 952/2013, the declarant shall report the emissions embedded in the goods placed under the inward processing procedure that are listed in Annex I to this Regulation, even if the processed product is not listed in that Annex.

⁴⁶ According to Article 9 of Regulation (EU) No 952/2013.

⁴⁷ According to Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU (OJ L 158, 14.6.2019, p. 125).

4. Where the imported goods are processed products resulting from the outward processing procedure as referred to in Article 259 of Regulation (EU) No 952/2013, the declarant shall report only the emissions of the processing operation undertaken outside the customs territory of the Union, provided that the processed product is listed in Annex I to this Regulation.
5. Where the imported goods are returned goods as referred to in Article 203 of Regulation (EU) No 952/2013, the declarant shall report zero emissions relating to these goods.

Article 7

Calculation of embedded emissions

1. Embedded emissions in imported goods shall be calculated by reference to the total quantity of goods imported during the calendar year, expressed in megawatt hours for electricity and in tonnes for other goods, multiplied by the embedded emissions of each good.
2. Embedded emissions in imported goods shall be determined by measuring the actual emissions. When those emissions cannot be adequately measured, they shall be determined by reference to default values.
3. Embedded emissions in imported electricity shall be determined by reference to default values unless the authorised declarant opts to determine the embedded emissions by measuring the actual emissions.
4. Methods for calculating the embedded emissions for each type of good referred to in the previous paragraphs are set out in Annex III.
5. The authorised declarant shall keep records of information required to calculate the embedded emissions in imported goods as laid down in Annex IV. Those records shall be sufficiently detailed to enable the accredited verifier to calculate the embedded emissions according to Article 8 and to enable the CBAM Authority to review the CBAM declaration according to Article 19(1). Those records, including the report of the verifier, shall be kept by the authorised declarant for the period specified in Article 19(1).
6. The Commission shall adopt implementing acts to determine default values and their application to individual goods in accordance with the calculation methods set out in Annex III. Default values can be adapted to particular areas, regions or countries where specific characteristics prevail in terms of objective factors such as geography, natural resources, market conditions, prevailing energy sources, or industrial production. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(3).

Article 8

Verification of embedded emissions

1. Each authorised declarant shall ensure that the embedded emissions declared pursuant to Article 6 are verified by an accredited verifier referred to in Article 18 following the principles for verification set out in Annex V.
2. The Commission shall adopt implementing acts to define further the methodology and content of the verification documentation. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).

Article 9
Carbon price paid in a country of origin

1. An authorised declarant may in its declaration claim a reduction in the number of CBAM certificates to be surrendered in proportion to the carbon price paid in the country of origin for the declared emissions. The authorised declarant shall provide sufficient information, certified by a competent independent person, supporting that the declared emissions are subject to a carbon price in the country of origin of the good and submit evidence that the carbon price has been actually paid and has not been subject to an export rebate or other form of compensation on exportation.
2. The Commission shall adopt delegated acts concerning the methodology for calculating the reduction, qualifications of the person certifying the information, elements of proof on payment of the carbon price and arrangements on applications and disbursements of compensations.
3. The Union, in accordance with Article 218 TFEU, may conclude sectoral agreements with third countries with a view to take account of carbon pricing mechanisms in these countries by simplifying the information required in paragraph 1. In such agreements the following conditions will be taken into account:
 - (a) the other party applies a domestic greenhouse pricing system which results in a formal and homogenous minimum carbon price;
 - (b) such a price is effectively charged on products exported to the EU;
 - (c) the other party does not apply a system of export rebate on its carbon pricing.

Article 10
Surrender of CBAM certificates

1. After purchase of CBAM certificates as set out in Article 22, an authorised declarant shall, by 31 May each year, surrender a number of CBAM certificates to the CBAM Authority that corresponds to the embedded emissions declared and verified in accordance with Articles 6 and 8 for the calendar year preceding the surrender.
2. If an authorised declarant paid a carbon price in the country of origin for the embedded emissions referred to in the first subparagraph, the CBAM certificates shall be surrendered with a reduction in accordance with Article 9.

Chapter III **Installations in third countries**

Article 11
Registration of third country installations

1. The CBAM Authority shall, upon request by an operator of an installation located in a third country, take a decision to confirm the embedded emissions in goods produced in that installation as verified by an independent verifier referred to in Article 18, and register the operator in the CBAM Registry.

The request for registration shall include the following:

- (a) name and contact details of the operator, as well as authorised signatories;

- (b) location and main economic activity of the installation in the third country at a 4-digit level (NACE-4 code);
 - (c) the embedded emissions calculated in accordance with the principles set for the determination of actual values in Annex III, specified by type of goods;
 - (d) the information referred to in point (c) as verified by an independent verifier in accordance with the criteria set out in Article 8.
2. The decision taken by the CBAM Authority shall be valid for a period of two years from the date of its notification to the holder of the decision.
3. Following notification of the registration by the CBAM Authority, the operator may opt to disclose such information to an authorised declarant in accordance with Article 14. The authorised declarant shall be entitled to avail itself of the disclosed information without any further verification of the relevant embedded emissions until the end date of the decision referred to in paragraph 1, insofar as the information provided by the operator stay unchanged.
4. The operator may, at any time, withdraw its registration request or ask to be deregistered from the CBAM Registry.
5. The Commission shall adopt implementing acts concerning the detailed arrangements for the verification of the actual values in accordance with Annexes III and V. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).

Chapter IV

The CBAM Authority

Article 12

The CBAM Authority

The Commission shall act as the CBAM Authority, in performing obligations referred to in Articles 17 to 20. It shall be assisted in its tasks by an entity to be created.

Article 13

Decisions taken by the CBAM Authority

1. The CBAM Authority shall, without delay, take any decision that is required to implement the provisions of this Regulation.
2. Any decision of the CBAM Authority shall take effect from the date of its notification to the holder of the decision.
3. If the CBAM Authority considers that it does not have all the necessary information to take a decision, it shall contact the applicant and specify what additional information is required. The applicant shall submit the required information to the CBAM Authority without delay.
4. The holder of the decision shall inform the CBAM Authority without delay of any changes to the information provided arising after the decision was taken, which may influence its continuation or content. In this case, the CBAM Authority shall re-assess its decision in light of that information.

5. Any decision taken by the CBAM Authority which adversely affects the holder of the decision shall set out the grounds on which it is based. Before the decision is taken, the CBAM Authority shall give the holder of the decision the opportunity to make its point of view known to the CBAM Authority within an appropriate period of time. Following the expiry of that period, the holder of the decision shall be notified of the decision in the appropriate form.
6. The CBAM Authority shall annul a decision favourable to the holder of the decision only if all the following conditions are fulfilled:
 - (a) the decision was taken on the basis of incorrect or incomplete information;
 - (b) the holder of the decision knew or ought reasonably to have known that the information was incorrect or incomplete;
 - (c) if the information had been correct and complete, the decision would have been different.
7. The CBAM Authority shall revoke or amend a decision favourable to the holder of the decision only where:
 - (a) one or more of the conditions for taking that decision were not or are no longer fulfilled; or
 - (b) upon application of the holder of the decision.
8. The Commission shall adopt implementing acts, to set out the procedural rules concerning the actions taken by the CBAM Authority and the obligations of applicants and holders of decisions according to paragraphs 1 to 7. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).

Article 14

Professional secrecy and disclosure of information

1. All information acquired by the CBAM Authority in the course of performing its duty which is by its nature confidential or which is provided on a confidential basis shall be covered by the obligation of professional secrecy. Such information shall not be disclosed by the CBAM Authority without the express permission of the person or authority that provided it.
2. Such information may, however, be disclosed without permission where this Regulation provides for it and where the CBAM Authority is obliged or authorised to do so pursuant to the provisions in force, particularly in respect of data protection, or in connection with legal proceedings.
3. Confidential information referred to in paragraph 1 may be communicated to the customs authorities of the Union.

Article 15

CBAM Registry

1. The CBAM Authority shall set up a CBAM Registry for the execution of processes relating to CBAM certificates and in order to ensure an accurate accounting of the sale, holding, surrender, re-purchase and cancellation of CBAM certificates, in accordance with the conditions set in Articles 22 to 26.

2. The CBAM Registry shall contain a database with information about each authorised declarant, in particular:
 - (a) name and contact details of the authorised declarant;
 - (b) EORI number of the authorised declarant;
 - (c) CBAM account number;
 - (d) number, price and date of purchase of CBAM certificates held by each authorised declarant.
3. The CBAM Registry shall also contain, in a separate section of the database, the names and additional details of the operator and of the third country installations registered in accordance with Article 11.
4. This database shall be confidential. Only the names of the authorised declarants and of the operator and of the third country installations included in the database shall be accessible to the public.
5. The Commission shall adopt delegated acts concerning a secured registry in the form of a standardised electronic database containing common data elements to track the sale, holding, surrender, re-purchase and cancellation of CBAM certificates, and to provide for public access and confidentiality in accordance with the conditions set out in Article 14.

Article 16
Accounts in the CBAM Registry

1. The CBAM Authority shall assign to each authorised declarant a unique CBAM account number.
2. Each declarant shall be granted access to its account in the CBAM Registry to fulfil its obligations pursuant to Article 10.
3. The CBAM Authority shall set up the account at the time of authorisation and notify the authorised declarant thereof.
4. If the authorised declarant has ceased activity or the CBAM authorisation is withdrawn, the CBAM Authority shall close the account of that declarant.
5. [The Commission shall adopt implementing acts laying down procedures concerning the accounts of the CBAM Registry. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).]

Article 17
Authorisation of declarants

1. The CBAM Authority shall authorise a person who applies for authorisation in accordance with Article 5, if the person meets the following criteria:
 - (a) the absence of any serious infringement or repeated infringements of customs legislation and taxation rules during the five years preceding the application, including no record of serious criminal offences relating to the economic activity of the applicant;
 - (b) financial solvency, which shall be deemed to be proven where the applicant has good financial standing, which enables him or her to fulfil his or her

commitments, with due regard to the characteristics of the type of business activity concerned.

2. A decision of the CBAM Authority to authorise a person shall contain the following information relating to the authorised person:
 - (a) the name and the address;
 - (b) the EORI number;
 - (c) the account number in the CBAM Registry.
3. The issuance of the authorisation shall be conditional upon the provision of a guarantee if the applicant is economically active for less than the two financial years that precede the year of the application.
4. The guarantee shall cover the amount of the price of CBAM certificates that the authorised declarant will have to surrender, in accordance with Article 24, on the basis of the imports of goods for the current and the forthcoming year, as estimated by the CBAM Authority. The guarantee shall be provided as a bank guarantee, payable at first demand, by a bank established in the Union or by another form of guarantee which provides equivalent assurance.

Where the CBAM Authority establishes that the guarantee provided does not ensure, or is no longer certain or sufficient to ensure the fulfilment of the authorised declarant's obligations, the CBAM Authority shall require the authorised declarant to provide an additional guarantee or to replace the original guarantee with a new guarantee, according to its choice.

The CBAM Authority shall release the guarantee, if the CBAM certificates have been surrendered in accordance with Article 24 for the year in which the applicant has been authorised and for the following year.

5. The CBAM Authority may verify the accuracy and completeness of the information given by the applicant in accordance with Article 5(2) and the existence, authenticity, accuracy and validity of any supporting document. Such controls may be carried out at the premises of the applicant.
6. [The Commission shall adopt implementing acts concerning the application of the criteria referred to in paragraph 1 and for guarantees referred to in paragraph 4. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).]

Article 18

Accreditation of verifiers

1. National accreditation bodies may on request accredit a person as a verifier after checking the documentation attesting its capacity to perform the obligations of control of the embedded emissions established in Articles 8 and 11.

The tasks related to accreditation in accordance with the first subparagraph shall be carried out by the national accreditation bodies appointed pursuant to Article 4 (1) of Regulation (EC) No 765/2008.

1. Any person accredited pursuant to Article 15 of Directive 2003/87/EC shall be regarded as an accredited verifier under this Regulation.

2. The Commission shall adopt implementing acts specifying conditions for the accreditation and withdrawal of accreditation, for mutual recognition and peer evaluation of accreditation bodies, as appropriate. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).

3.

Article 19
Review of CBAM declarations

1. The CBAM declaration and the absence of such declaration is subject to review by the CBAM Authority until the end of the fourth year after the year in which the CBAM declaration has been or should have been submitted. The review may in particular consist in cross-examining the information provided in the CBAM declaration with the information communicated by the customs authorities in accordance with Article 27(2) and any other relevant evidence, and in any audit deemed necessary, including at the premises of the authorised declarant.
2. During the period specified in the first sentence of paragraph 1 the authorised declarant may apply for correction of the CBAM declaration.
3. Where the CBAM Authority has determined, ex officio or upon application by the authorised declarant, that the total amount of CBAM certificates to be surrendered according to the CBAM declaration is incorrect, or has determined that a CBAM declaration should have been submitted according to Article 6, the CBAM Authority shall adjust the amount of CBAM certificates due by the authorised declarant. In case an outstanding amount of CBAM certificates is due, the CBAM Authority shall issue a notice to surrender the outstanding CBAM certificates and shall enforce that notice, if necessary. In case CBAM certificates have been surrendered in excess of the amount due, the CBAM Authority shall reimburse the excessive CBAM certificates to the authorised declarant.
4. [The Commission shall adopt implementing acts to set the procedural rules concerning the review of CBAM declarations and the related enforcement by the CBAM Authority. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).]

Article 20
Management of CBAM certificates

The CBAM Authority shall administer the sale, re-purchase and cancellation of CBAM certificates in accordance with provisions set out in Articles 22 to 26.

Article 21
Revenues

The revenues generated by the sale of CBAM certificates shall constitute internal assigned revenue in accordance with Article 21(4) of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (⁴⁸). They shall be assigned to cover the costs of the

⁴⁸ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298 26.10.2012, p. 1).

operation and maintenance of the CBAM Authority. Any revenue remaining after covering these costs shall be assigned to the Union budget.

Chapter V

CBAM certificates

Article 22

Sale of CBAM certificates

1. The CBAM Authority shall sell CBAM certificates to each authorised declarant at the price referred to in Article 23.
2. The CBAM Authority shall ensure that each CBAM certificate is assigned a unique unit identification code upon its creation and is registered along with the price and date of sale of the certificate in the CBAM Registry in the account of the authorised declarant.

Article 23

Price of CBAM certificates

1. The CBAM Authority shall calculate the price of CBAM certificates as the average of the closing prices of all auctions of EU ETS allowances conducted in auctioning platforms appointed in accordance the procedures laid down in Article 10(4) of Directive 2003/87/EC during each calendar week.
2. This average price shall be published in the *Official Journal of the European Union* on the first working day of each calendar week and shall be applied to sales concluded from the following working day to the first working day of the following calendar week
3. The Commission shall adopt implementing acts concerning detailed rules on the calculation of the average price of CBAM certificates and further arrangements on the publication of such price. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).

Article 24

Surrender of CBAM certificates

1. The CBAM Authority shall ensure, by 31 May each year, that each authorised declarant surrender the number of CBAM certificates stated in its declaration in accordance with Article 6.
2. The authorised declarant shall fulfil the surrender obligation referred to in the first paragraph by way of ensuring that the required number of CBAM certificates is available on its account in the CBAM Registry by 31 May of each year at the latest.

Article 25

Re-purchase of CBAM certificates

1. The CBAM Authority shall, on request by an authorised declarant, re-purchase the excess of CBAM certificates remaining on the account of that declarant in the CBAM Registry after the yearly surrender of certificates in accordance with Article 24.

2. The number of certificates subject to re-purchase referred to in the first paragraph shall be limited to 10 per cent of the total CBAM certificates purchased by the authorised declarant during the previous calendar year.
3. The re-purchase price for each CBAM certificate shall be the price paid by the authorised declarant for that certificate at the time of sale.
4. The CBAM certificates exceeding the percentage referred to in the paragraph 2 shall be cancelled according to Article 26.

Article 26

Cancellation of CBAM certificates

1. The CBAM Authority shall, by 31 July each year, cancel the CBAM certificates purchased during the previous calendar year that remained in the account of each authorised declarant in the CBAM Registry after the surrendering of certificates in accordance with Article 24 and possible re-purchasing of certificates in accordance with Article 25.

Chapter VI **Border administration of goods**

Article 27

Procedures at the border when goods are imported

1. The customs authorities shall ensure that the declarant of the goods is authorised by the CBAM Authority when the goods are declared for importation and at the latest at the moment of the release of the goods.
2. The customs authorities shall periodically communicate to the CBAM Authority information on the goods declared for importation, which shall include the quantity, the country of origin and the declarant of the goods.

The communication referred to in the first subparagraph shall also include information given by the declarant of the location of the installation where the goods are produced, the name of the operator of the installation and the embedded emissions in the goods based on default values in accordance with Annex III.
3. The customs authorities may communicate confidential information, referred to in Article 12(1) of Regulation (EU) No 952/2013, to the CBAM Authority for the purpose of application of this Regulation.
4. The Commission shall adopt implementing acts defining the periodicity and the means for communicating the information referred to in paragraph 2. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).

Chapter VII Enforcement

Article 28 *Penalties*

1. An authorised declarant who fails to surrender, by 31 May of each year, a number of CBAM certificates corresponding to the emissions embedded in goods imported during the previous year shall be liable to a penalty set at 100% of the average price of a CBAM certificate in the year of importation of the goods, for each CBAM certificate that the authorised declarant should have surrendered
2. An authorised declarant who fraudulently avoids or seeks to avoid its obligation to surrender CBAM certificates corresponding to the emissions embedded in goods imported during the previous year, including by way of false declaration or information, commits an offence and shall be liable to a penalty set at 200% of the average price of a CBAM certificate in the year of importation of the goods, for each CBAM certificate that the authorised declarant should have surrendered.
3. A person introducing goods into the customs territory of the Union without complying with the obligations on import set out in Regulation (EU) No 952/2013 and resulting in the surrender of no CBAM certificates shall be liable to a penalty of 100% of the average price of a CBAM certificate in the year of introduction of the goods, for each CBAM certificate that the person should have surrendered.
4. Payment of the penalty shall in no case release the authorised declarant from the obligation to surrender the outstanding number of CBAM certificates in a given year to the CBAM Authority.
5. If the CBAM Authority determines that an authorised declarant has failed to comply with the obligation to surrender CBAM certificates as specified in paragraph 1, or that a person has introduced goods into the customs territory of the Union as specified in paragraph 3, the CBAM Authority shall determine the amount of the penalty and notify the authorised declarant or, in the situation under paragraph 3, the person:
 - (a) that the CBAM Authority has determined that the authorised declarant or the person fails to comply with the obligation of surrendering CBAM certificates for a given year;
 - (b) of the reasons for its determination;
 - (c) of the amount of the penalty imposed on the authorised declarant or on the person;
 - (d) of the date from which penalty is due;
 - (e) of the action the CBAM Authority considers the authorised declarant or the person should take to comply with its obligation under point (i) depending on the facts and circumstances of the case; and
 - (f) of the right of the authorised declarant or of the person to appeal.

Article 29
Circumvention

1. The Commission shall take action, based on relevant and objective data, in accordance with this Article, to address practices of circumvention.
2. Practices of circumvention include situations where a change in the pattern of trade in relation to goods included in the scope of this Regulation has insufficient due cause or economic justification other than avoiding obligations as laid down in this Regulation and consist in replacing those goods with slightly modified products, which are not included in the scope of this Regulation list of goods in Annex I.
3. A Member State or any interested party may notify the Commission if it is confronted, over a two-month period, compared with the same period in the preceding year with a significant decrease in the number of goods included in the scope of this Regulation and an increase of slightly modified products, which are not included in the scope of this Regulation list of goods in Annex I. The Commission shall continually monitor, at Union level, any significant decrease in the number of goods included in the scope of this Regulation.
4. The notification referred to in paragraph 3 shall state the reasons on which it is based and shall include relevant data and statistics regarding the goods and products referred to in paragraph 2.
5. Where the Commission, taking into account the relevant data, reports and statistics has concrete and reliable information that the circumstances referred to in paragraph 3 are occurring in one or more Member States, the provisions of paragraph 7 shall apply.
6. The Commission also rely on consolidated statistics provided by the customs authorities of Member States and may instruct them to require a guarantee in respect to the goods and the products referred to in paragraph 2.
7. Where, on the basis of the analysis referred to in paragraph 5, the Commission decides that action is needed, it shall adopt a delegated acts to extend the scope of this Regulation to the slightly modified products concerned.

Chapter VIII
Exercise of delegation and committee procedure

Article 30
Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The power to adopt delegated acts referred to in Articles 2(3), 2(4) and 29(5) shall be conferred on the Commission for an indeterminate period of time.
3. The delegation of power referred to in Articles 2(3), 2(4) and 29(5) may be revoked at any time by the European Parliament or by the Council.
4. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the

Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

5. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Inter-institutional Agreement on Better Law-Making of 13 April 2016.
6. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and to the Council.
7. A delegated act adopted pursuant to Articles 2(3), 2(34) and 29(5) shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of two months of notification of that act to the European Parliament and to the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.

Article 31

Urgency procedure for delegated acts

1. Delegated acts adopted under this Article shall enter into force without delay and shall apply as long as no objection is expressed in accordance with paragraph 2. The notification of a delegated act to the European Parliament and to the Council shall state the reasons for the use of the urgency procedure.
2. Either the European Parliament or the Council may object to a delegated act in accordance with the procedure referred to in Article 30(6). In such a case, the Commission shall repeal the act immediately following the notification of the decision to object by the European Parliament or by the Council.

Article 32

Exercise of implementing powers by the Commission

1. The Commission shall be assisted by a CBAM Committee. The Committee shall be a committee within the meaning of Regulation (EU) No 182/2011.
2. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

Chapter IX

Reporting and review

Article 33

Reporting and review by the Commission

1. The Commission shall initiate collection of information necessary to develop methods of calculating embedded emissions, including setting benchmarks, for enabling an extension of the scope of this Regulation to goods other than those listed in Annex I.
2. Three years after the end of the transitional period, the Commission shall present a report to the European Parliament and the Council on the application of this

Regulation based on the information collected. The report shall contain, in particular, an assessment of the possibilities to further extend the scope to other goods at risk of carbon leakage than those already covered by this Regulation as well as to goods further down the value chain that may be subject to the risk of carbon leakage in the future.

3. The report by the Commission shall, if appropriate, be accompanied by a legislative proposal.

Chapter X

Coordination with free allocation in the EU ETS

Article 34

Free allocation in the EU ETS and obligation to surrender CBAM certificates

1. The CBAM certificates to be surrendered in accordance with Article 10 shall be reduced in number to reflect the extent to which EU ETS allowances are allocated free of charge in accordance with Article 10b of Directive 2003/87/EC to installations producing the goods listed in Annex I within the Union.
2. The Commission shall adopt implementing acts concerning the calculation methodology for the reduction referred to in paragraph 1. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).

Chapter XI

Transitional provisions

Article 35

Scope

1. For a period of three years following the entry into force of this Regulation, a simplified mechanism applies as set out in Articles 39 to 45.
2. During the transitional period referred to in paragraph 1, the Commission performs obligations in accordance with Articles 40, 42 and 43.

Article 36

Importation of goods

Importation of goods shall, during the transitional period, be subject to a CBAM charge calculated in accordance with Articles 39 and 41 at the latest at the moment of the release of the goods.

Article 37

Revenues

The revenues generated from the collection of the CBAM charge shall constitute internal assigned revenue in accordance with Article 21(4) of Regulation (EU, Euratom) No 966/2012.

They shall be assigned to cover the costs of the operations carried out by the Commission in accordance to Article 35. Any revenue remaining after covering these costs shall be assigned to the Union budget.

Article 38

Calculation of CBAM charge for certain customs procedures

1. The CBAM charge on processed goods resulting from the inward processing procedure as referred to in Article 256 of Regulation (EU) No 952/2013 shall be the CBAM charge applicable on the goods placed under the inward processing procedure that are listed in Annex I to this Regulation, even if the processed product is not listed in that Annex.
2. The CBAM charge shall not apply on:
 - (a) processed products resulting from the outward processing procedure as referred to in Article 259 of Regulation (EU) No 952/2013;
 - (b) imported goods qualifying as returned goods in accordance with Article 203 of Regulation (EU) No 952/2013.

Article 39

Procedures at the border when goods are imported

1. During the transitional period, the customs authorities shall calculate and collect a CBAM charge on imported goods in accordance with the provisions laid down in Articles 40 to 42 and 45.
2. During the transitional period, the customs authorities shall collect the CBAM charge in accordance with the provisions for collection of the customs debt on import of Regulation (EU) No 952/2013.
3. The customs authorities shall, by means of the surveillance mechanism established pursuant to Article 56(5) of Regulation (EU) No 952/2013, communicate to the Commission information on the quantity, the CBAM charge paid, the country of origin and the declarant of the goods declared for importation, including processed products resulting from the outward processing procedure.

Article 40

CBAM charge for imported goods

1. The Commission shall calculate a CBAM charge expressed in EUR per megawatt hour of electricity and in EUR per tonne of each other good in accordance with the provisions set out in paragraphs 2 and 3, based on default values for each good set in accordance with Article 41 and 45.
2. The CBAM charge shall be calculated as the average of the closing prices of all auctions of EU ETS allowances conducted in auctioning platforms appointed in accordance the procedures laid down in Article 10(4) of Directive 2003/87/EC during each calendar week. This average price shall be published in the *Official Journal of the European Union* on the first working day of each calendar week and shall be applied to sales concluded from the following working day to the first working day of the following calendar week.

3. [The Commission shall adopt implementing acts concerning detailed rules on the calculation of the CBAM charge and further arrangements on the publication of the average price. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).]

Article 41
Calculation of default values

Default values shall be determined to calculate the CBAM charge for goods imported during the transitional period. Annex III sets out the principles for determining such default values for each good.

Article 42
Reimbursement of the CBAM charge

1. A declarant may, no later than two months after having paid a CBAM charge in accordance with Article 39(1), apply to the Commission for a partial reimbursement of the CBAM charge paid resulting from a recalculation of the value of embedded emissions in the imported goods in accordance with the principles set out in paragraph 2.
2. A methodology for calculating the embedded emissions for each good is set out in Annex III.
3. A declarant shall ensure that the embedded emissions referred to in paragraph 1 are certified by a verifier accredited pursuant to Article 15 of Directive 2003/87/EC following the principles for verification set out in Annex V, including relevant data as set out in Annex IV.
4. The Commission shall adopt implementing acts to specify the methodology set out in Annex III and to establish detailed arrangements for the calculation of embedded emissions, including how such emissions are to be reflected in the application for reimbursement referred to in paragraph 1. The Commission shall also adopt implementing acts concerning the verification based on the principles set out in Annexes IV and V. Those implementing shall be adopted in accordance with the examination procedure referred to in Article 32(2).

Article 43
Compensation for carbon price paid in countries of origin

1. A declarant may, after having paid a CBAM charge in accordance with Article 39(1), apply to the Commission for compensation in proportion to the carbon price paid in the country of origin for the embedded emissions in the imported goods. The declarant shall provide information, certified by a competent independent person, supporting that the embedded emissions in the imported goods are subject to a carbon price in the country of origin, and submit evidence showing that the carbon price has been actually paid and has not been subject to an export rebate or other form of compensation on exportation.
2. The declarant shall submit its claim for compensation to the Commission at the latest by 12 months after the payment of the carbon price paid in the country of origin. The Commission shall adopt implementing acts concerning the qualifications of the person certifying the information, elements of proof on payment of the carbon price and the arrangements on applications and disbursements of compensations. Those

implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).

Article 44

Control of reimbursements and compensations

1. Any reimbursement made in accordance with Article 42 or any compensation made in accordance with Article 43 is subject to control by the Commission until the end of the first year following the year of the decision on reimbursement or compensation.
2. The conditions and procedures laid down in Article 19 on the review of CBAM declarations as well as the provisions laid down in Article 13 on decisions taken by the CBAM Authority and the provisions laid down in Article 14 on professional secrecy and disclosure of information shall, where relevant, apply to any decision referred to in paragraph 1.

Article 45

Free allocation in the EU ETS and the default values

1. The default values calculated in accordance with Article 41 shall be reduced to reflect the extent to which EU ETS allowances are allocated free of charge in accordance with Article 10b of Directive 2003/87/EC to installations producing the goods listed in Annex I within the Union.
2. The Commission shall adopt implementing acts concerning the calculation methodology for the reduction referred to in paragraph 1 to ensure that the application of EU ETS allowances allocated free of charge and of the mechanism will in no case result in more favourable treatment for EU products compared to imported goods. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 32(2).

Chapter XI

Final provisions

Article 46

Entry into force

1. This Regulation shall enter into force on the [twentieth] day following that of its publication in the *Official Journal of the European Union*.
2. Articles 4, 6, 7, 8, 9, 10, 15, 16, 19, 20, 22, 23, 24, 25, 26 and 27 shall apply from 1 January 2026. Nevertheless, in respect of authorisation of declarants and registration of third country installations, Articles 5, 11, 17 and 18 shall take effect from 1 September 2025.
3. Articles 35 to 45 shall apply until 31 December 2025.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

*For the European Parliament
The President*

*For the Council
The President*

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

- 1.1. Title of the proposal/initiative
- 1.2. Policy area(s) concerned in the ABM/ABB structure
- 1.3. Nature of the proposal/initiative
- 1.4. Objective(s)
- 1.5. Grounds for the proposal/initiative
- 1.6. Duration and financial impact
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- 3.2. Estimated impact on expenditure
 - 3.2.1. *Summary of estimated impact on expenditure*
 - 3.2.2. *Estimated impact on operational appropriations*
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 - 3.2.5. *Third-party contributions*
- 3.3. Estimated impact on revenue

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Carbon Border Adjustment Mechanism.

1.2. Policy area(s) concerned

Climate policy.

1.3. The proposal/initiative relates to:

a new action

a new action following a pilot project/preparatory action⁴⁹

the extension of an existing action

a merger or redirection of one or more actions towards another/a new action

1.4. Objective(s)

1.4.1. General objective(s)

In light of the EU's increased climate ambitions, the introduction of a CBAM has the overarching objective of addressing climate change by reducing GHG emissions in the EU and globally.

1.4.2. Specific objective(s)

Specific objective

The overarching objective of addressing climate change is further articulated in a number of specific objectives, namely:

(i) Addressing the risk of carbon leakage under increased EU ambition.

(ii) Contributing to the provision of a stable and secure policy framework for investments in low or zero carbon technologies.

(iii) Ensuring that domestic production and imports are subject to similar level of carbon pricing.

(iv) Encouraging producers in third countries who export to the EU to adopt low carbon technologies.

(v) Ensuring that the measure is effective, minimising the risk of being circumvented, thus providing environmental integrity.

(vi) Ensuring a proportionate administrative burden for businesses and public authorities in the application of the measure.

1.4.3. Expected result(s) and impact

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

⁴⁹ As referred to in Article 58(2)(a) or (b) of the Financial Regulation.

All options for the introduction of a CBAM envisage a reduction in greenhouse gas emissions both in the EU-27 and in the rest of the world in the sectors covered by CBAM.

The CBAM is also expected to reduce the risks of carbon leakage, therefore gradually replacing the free allocation of allowances under the EU ETS.

As regards economic impacts, the modelling indicates that the introduction of a CBAM could lead to a GDP contraction for the EU 27 by 0.22 % to 0.23 % in 2030 with negligible differences between options. Impact on the investment side is modest. Investment under CBAM is slightly lower than the MIX-full auctioning, but effects are too small to derive meaningful conclusions. On the consumption side CBAM appears to have a slightly less negative effect relative to the MIX scenario.

By effectively reducing carbon leakage, the introduction of a CBAM leads to a reduction in imports in the EU 27, with significant differences across options.

Overall, the social impacts of CBAM are limited, with slight negative impacts on employment and consumer prices.

Administrative impacts stemming from the introduction of a CBAM depend on the design of the mechanism. Altogether, compliance costs for businesses and authorities, while significant, are expected to be proportionate, and manageable in light of the environmental benefits of the measure.

While revenue generation is not an objective of CBAM, all options are expected to generate additional revenue, above EUR 14 billion per year in the options where free allocation is removed.

1.4.4. Indicators of performance

Specify the indicators for monitoring progress and achievements.

Objectives	Indicators	Measurement tools/data sources
Reduce emissions	GHG - Level of emissions in the EU - Level of emissions globally	- Climate statistics - Sector statistics
Incentivise cleaner production processes in third countries	- Evolution of actual emissions for CBAM sectors in third countries	- Level of emissions demonstrated by third country producers subject to CBAM
Prevent carbon leakage	- As indicators of GHG emissions above - Level of emissions in the EU relative to level of emissions globally - Trade flows in CBAM sectors - Trade flows downstream	- Climate statistics - Trade statistics - Sector statistics
Ensure consistency with EU policies	- Import certificates price in line with the price in the EU ETS	- Statistics from EU ETS and CBAM authorities
Limit	- Timely treatment of CBAM enforcement (e.g. possible	- Feedback from industry and public

administrative burden	reconciliation procedure) – Frequency of updating EU ETS pricing – Checks of actual level of emissions by exporter	authorities responsible for CBAM implementation – Number of staff necessary for CBAM administration
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1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative

The CBAM is expected to be introduced in 2023. A simplified system of the CBAM scheme will be in place for the first years after the entry into force. Specifically, a transitional period will apply to facilitate the smooth roll out of the CBAM and allow traders and importers to adjust. Simplifications include the procedures applied at the border when goods are imported and the use of default values to determination the CBAM obligation.

1.5.2. Added value of Union involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this point 'added value of Union involvement' is the value resulting from Union intervention which is additional to the value that would have been otherwise created by Member States alone.

Reasons for action at European level (ex-ante) Reducing GHG emissions is fundamentally a trans-boundary issue that requires effective action at the largest possible scale. The EU as a supranational organisation is well-placed to establish effective climate policy in the EU, like it has done with the EU ETS.

There exists already a harmonised carbon price at EU level. This consists of the price resulting from the EU ETS for the sectors covered by the system. These sectors are energy-intensive and subject to international competition. In order to ensure a well-functioning single market when the EU increases its climate ambition, it is essential that a level playing field is created for the relevant sectors in the internal market. The single effective way to do this is by taking action at the level of the EU. Any initiative needs to be implemented in a way that provides importers, regardless of country of origin and port of entry or destination within the EU, with uniform conditions and incentives for GHG emission reductions that are equivalent to those of domestic producers.

The only meaningful way to ensure equivalence between the carbon pricing policy applied in the EU's internal market and the carbon pricing policy applied on imports is to take action at the level of the Union.

Expected generated Union added value (ex-post): In parallel to the EU ETS, reduction of GHG emissions and protection against the risk of carbon leakage in the EU single market can be established most adequately at the EU level. Additionally, the need for minimal administrative costs is best achieved by establishing consistent rules for the entire single market, further underlining the added value of an intervention at the EU level.

The public consultation has confirmed the added value of taking action on the CBAM at the EU level. In particular, stakeholders agree that an EU CBAM is needed due to existing differences of ambition between the EU and the rest of the world and in order to support the global climate efforts. In addition, in view of the EU's position in international trade, if it introduces a CBAM the environmental effect on international climate ambitions will be most effective as a potential example to follow.

Thus, the objective of reducing emissions and climate neutrality requires – without equally ambitious global policies – action by the European Union.

1.5.3. Lessons learned from similar experiences in the past

The CBAM is a new mechanism. The preferred option in the Impact Assessment draws from the EU Emissions Trading System and aims at replicating some of its features.

1.5.4. Compatibility with the Multiannual Financial Framework and possible synergies with other appropriate instruments

The introduction of a CBAM has been agreed by the European Council, The European Parliament and the European Commission on 16 December 2020⁵⁰ as a new own resource, with a view to its introduction at the latest by 1 January 2023. CBAM, such as other new own resources will be used for early repayment of the borrowing under NextGenerationEU. As such, it is in line with the Multiannual Financial Framework.

1.5.5. Assessment of the different available financing options, including scope for redeployment

Implementation costs for CBAM will be financed through the revenue generated by CBAM.

⁵⁰ See EUCO 10/20.

1.6. Duration and financial impact of the proposal/initiative

limited duration

- in effect from [DD/MM]YYYY to [DD/MM]YYYY
- Financial impact from YYYY to YYYY for commitment appropriations and from YYYY to YYYY for payment appropriations.

× unlimited duration

- Implementation with a start-up period from 1 January 2023
- followed by full-scale operation.

1.7. Management mode(s) planned⁵¹

x Direct management by the Commission

- by its departments, including by its staff in the Union delegations;
- by the executive agencies

Shared management with the Member States

Indirect management by entrusting budget implementation tasks to:

- third countries or the bodies they have designated;
- international organisations and their agencies (to be specified);
- the EIB and the European Investment Fund;
- bodies referred to in Articles 70 and 71 of the Financial Regulation;
- public law bodies;
- bodies governed by private law with a public service mission to the extent that they provide adequate financial guarantees;
- bodies governed by the private law of a Member State that are entrusted with the implementation of a public-private partnership and that provide adequate financial guarantees;
- persons entrusted with the implementation of specific actions in the CFSP pursuant to Title V of the TEU, and identified in the relevant basic act.
- *If more than one management mode is indicated, please provide details in the 'Comments' section.*

Comments

⁵¹ Details of management modes and references to the Financial Regulation may be found on the BudgWeb site:
<https://myintracomm.ec.europa.eu/budgweb/EN/man/budgmanag/Pages/budgmanag.aspx>

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

Specify frequency and conditions.

The Commission will ensure that arrangements are in place to monitor and evaluate the functioning of the CBAM and evaluate it against the main policy objectives. Given that CBAM is one of the policy proposals under the 'Fit for 55 Package', monitoring and evaluation could be carried out in alignment with the other policies of the package.

The administration system should be evaluated after the first year of operation to identify any issues and potential improvements. In addition, when more data is available, the Commission will also review the scope of the CBAM to examine the possibility of extending it to cover emissions of additional sectors and further down the value chain. For this, it is necessary to monitor the effect of CBAM on the shortlisted sectors.

2.2. Management and control system(s)

2.2.1. *Justification of the management mode(s), the funding implementation mechanism(s), the payment modalities and the control strategy proposed*

Empowering a central CBAM Authority for the entire Union would minimise the relevant administrative costs associated with this task. In contrast to this, a set-up similar to the EU ETS with national competent authorities could also be conceivable. This is, however, expected to result in substantially higher costs because of the stronger need for collaboration and coordination of the assessment of monitoring reports.

2.2.2. *Information concerning the risks identified and the internal control system(s) set up to mitigate them*

The proposed CBAM will be based on a declarative system, which entails the risk of non-declaration or misdeclaration.

In order to address the risk of non-declaration, the system requires an authorisation before importing goods in the scope of the Regulation. National customs authorities will be in charge of enforcing this rule by not releasing into free circulation these goods as long as the declarant is not authorised according to this Regulation.

In order to address the risk of misdeclaration a system of auditing on risk assessment criteria as well as random audits will be in place coupled with sanctions set up as a sufficiently high level to serve as deterrent. Auditing will take place both at the level of CBAM declaration by the CBAM authority and at the level of import declarations by customs authorities.

2.2.3. *Estimation and justification of the cost-effectiveness of the controls (ratio of "control costs ÷ value of the related funds managed"), and assessment of the expected levels of risk of error (at payment & at closure)*

The role of the CBAM Authority will be to control the correct application of CBAM, in particular the surrender of CBAM certificates and the collection of funds. A risk management system will be applied to ensure cost-effective controls.

It the first years the set up and running costs of the CBAM Authority and IT systems will be EUR 20 million to collect revenues of EUR 2 billion, or a ratio of 1 %.

2.3. Measures to prevent fraud and irregularities

Specify existing or envisaged prevention and protection measures, e.g. from the Anti-Fraud Strategy.

The financial interests of the Union should be protected through proportionate measures throughout the expenditure cycle, including the prevention, detection and investigation of irregularities, the recovery of funds lost, wrongly paid or incorrectly used and, where appropriate, administrative and financial penalties.

An authorised declarant who fails to surrender, by 31 May of each year, a number of CBAM certificates corresponding to the emissions embedded in goods imported during the previous year or submits to the CBAM Authority false information related to actual emissions with a view to obtain a favourable individual treatment, shall be held liable for the payment of a penalty.

The amount of the penalty should be equivalent to three times the average price of CBAM certificates in the previous year for each CBAM certificate that the authorised declarant did not surrender in accordance with Article 24. Payment of the penalty shall not release the authorised declarant from the obligation to surrender the outstanding number of CBAM certificates to the CBAM Authority.

In case of repeated offences, the CBAM Authority may decide to suspend the account of the declarant.

Implementing acts will provide more detail on the application of penalties.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing budget lines

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number	Diff./Non-diff. ⁵²	from EFTA countries ⁵³	from candidate countries ⁵⁴	from third countries	within the meaning of Article 21(2)(b) of the Financial Regulation
	[XX.YY.YY.YY]	Diff./Non-diff.	YES/NO	YES/NO	YES/NO	YES/NO

- New budget lines requested

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number	Diff./Non-diff.	from EFTA countries	from candidate countries	from third countries	within the meaning of Article 21(2)(b) of the Financial Regulation
	[XX.YY.YY.YY]		YES/NO	YES/NO	YES/NO	YES/NO

⁵² Diff. = Differentiated appropriations / Non-diff. = Non-differentiated appropriations.

⁵³ EFTA: European Free Trade Association.

⁵⁴ Candidate countries and, where applicable, potential candidates from the Western Balkans.

3.2. Estimated financial impact of the proposal on appropriations

3.2.1. Summary of estimated impact on operational appropriations

- × The proposal/initiative does not require the use of operational appropriations
- □ The proposal/initiative requires the use of operational appropriations, as explained below:

EUR million (to three decimal places)

Heading of multiannual financial framework	Number
DG: <.....>	

		Year N ⁵⁵	Year N+1	Year N+2	Year N+3	Enter as many years as necessary to show the duration of the impact (see point 1.6)	TOTAL
• Operational appropriations							
Budget line ⁵⁶	Commitments						
	Payments						
Budget line	Commitments						
	Payments						
Appropriations of an administrative nature financed from the envelope of specific programmes ⁵⁷							
Budget line							
	(3)						
TOTAL appropriations for DG <.....>	Commitments						
	Payments						
		=1a+1b+3					
		=2a+2b					

⁵⁵ Year N is the year in which implementation of the proposal/initiative starts. Please replace "N" by the expected first year of implementation (for instance: 2021). The same for the following years.

⁵⁶ According to the official budget nomenclature.

⁵⁷ Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

															+3					
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<ul style="list-style-type: none"> TOTAL operational appropriations 	Commitments	(4)																	
	Payments	(5)																	
<ul style="list-style-type: none"> TOTAL appropriations of an administrative nature financed from the envelope for specific programmes 		(6)																	
	TOTAL appropriations under HEADING <...> of the multiannual financial framework		=4+6																
	Payments		=5+6																

If more than one operational heading is affected by the proposal / initiative, repeat the section above:

<ul style="list-style-type: none"> TOTAL operational appropriations (all operational headings) 	Commitments	(4)																	
	Payments	(5)																	
<ul style="list-style-type: none"> TOTAL appropriations of an administrative nature financed from the envelope for specific programmes (all operational headings) 		(6)																	
	TOTAL appropriations under HEADINGS 1 to 6 of the multiannual financial framework (Reference amount)		=4+6																
	Payments		=5+6																

Heading of multiannual financial framework	7	‘Administrative expenditure’
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This section should be filled in using the 'budget data of an administrative nature' to be firstly introduced in the Annex to the Legislative Financial Statement (Annex V to the internal rules), which is uploaded to **DECIDE** for interservice consultation purposes.

EUR million (to three decimal places)

	Year N	Year N+1	Year N+2	Year N+3	Enter as many years as necessary to show the duration of the impact (see point 1.6)	TOTAL
DG: <.....>						
• Human resources						
• Other administrative expenditure						
TOTAL DG <.....>						
Appropriations						

TOTAL appropriations under HEADING 7 of the multiannual financial framework									
(Total commitments = Total payments)									

EUR million (to three decimal places)

	Year N ⁵⁸	Year N+1	Year N+2	Year N+3	Enter as many years as necessary to show the duration of the impact (see point 1.6)	TOTAL
TOTAL appropriations under HEADINGS 1 to 7 of the multiannual financial framework						
Commitments						
Payments						

⁵⁸

Year N is the year in which implementation of the proposal/initiative starts. Please replace "N" by the expected first year of implementation (for instance: 2021). The same for the following years.

3.2.2. Estimated output funded with operational appropriations

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs ↓	Type ⁵⁹	Average cost	Year N	Year N+1	Year N+2	Year N+3	Enter as many years as necessary to show the duration of the impact (see point 1.6)					Total No	Total cost	
			€	€	€	€	€	€	€	€	€			
			Cost	Cost	Cost	Cost	Cost	Cost	Cost	Cost	Cost			
OUTPUTS														
SPECIFIC OBJECTIVE No 1 ⁶⁰ ...														
- Output														
- Output														
- Output														
Subtotal for specific objective No 1														
SPECIFIC OBJECTIVE No 2 ...														
- Output														
Subtotal for specific objective No 2														
TOTALS														

⁵⁹ Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).
⁶⁰ As described in point 1.4.2. 'Specific objective(s)...

3.2.3. Summary of estimated impact on administrative appropriations

- The proposal/initiative does not require the use of appropriations of an administrative nature
- The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
--	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------

HEADING 7 of the multiannual financial framework								
Human resources								
Other administrative expenditure								
Subtotal HEADING 7 of the multiannual financial framework								

Outside HEADING 7⁶¹ of the multiannual financial framework								
Human resources			11,4	11,4	11,4	11,4	11,4	11,4
Other expenditure of an administrative nature	2	2,5	5 (IT development) + 0.150 (costs for auctioning platform)	10 + 0.150	11 + 0.150	11 + 0.150	6 + 0.150	6 + 0.150
Subtotal outside HEADING 7 of the multiannual financial framework	2	2,5	16,55	21,55	22,55	22,55	17,55	17,55

TOTAL	2	2,5	16,55	21,55	22,55	22,55	17,55	17,55
--------------	---	-----	-------	-------	-------	-------	-------	-------

The appropriations required for human resources and other expenditure of an administrative nature will be met by appropriations from the DG that are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

⁶¹ Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

3.2.3.1. Estimated requirements of human resources

- The proposal/initiative does not require the use of human resources.
- The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units

	Year N	Year N+1	Year N+2	Year N+3	Enter as many years as necessary to show the duration of the impact (see point 1.6)		
• Establishment plan posts (officials and temporary staff)							
20 01 02 01 (Headquarters and Commission's Representation Offices)	75	75	75	75			
20 01 02 03 (Delegations)							
01 01 01 01 (Indirect research)							
01 01 01 11 (Direct research)							
Other budget lines (specify)							
• External staff (in Full Time Equivalent unit: FTE)⁶²							
20 02 01 (AC, END, INT from the 'global envelope')							
20 02 03 (AC, AL, END, INT and JPD in the delegations)							
XX 01 xx yy zz ⁶³	- at Headquarters						
	- in Delegations						
01 01 01 02 (AC, END, INT - Indirect research)							
01 01 01 12 (AC, END, INT - Direct research)							
Other budget lines (specify)							
TOTAL							

XX is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	To obtain rough estimate of the potential staffing needs of a centralised CBAM Authority, we consider three core functional areas that will need to be supported. The first relates to the core function of reviewing, assessing and approving declarations presented by authorised declarants including issuing requests for supplementary information and clarification. Assuming a maximum of 10 working days for the handling of each, this would require 50 full time equivalent positions. The second relates to the handling of complaints submitted by interested parties. Assuming that around one third of declarations could be subject to scrutiny and a maximum of 5 working days would be needed for the handling of each, this would require an additional 7.5 full time
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⁶² AC= Contract Staff; AL = Local Staff; END= Seconded National Expert; INT = agency staff; JPD= Junior Professionals in Delegations.

⁶³ Sub-ceiling for external staff covered by operational appropriations (former 'BA' lines).

	equivalent positions. Finally, for support functions related to maintenance of the IT systems including the keeping and updating of registries and handing of CBAM obligations (selling and re-purchase of CBAM certificates), an additional 18 full time equivalent positions are estimated to be needed. This would imply approximately a requirement of 75 staff at a full time basis to implement the CBAM.
External staff	

3.2.4. *Compatibility with the current multiannual financial framework*

The proposal/initiative:

- can be fully financed through redeployment within the relevant heading of the Multiannual Financial Framework (MFF).

Implementation costs for CBAM will be financed through the revenue generated by CBAM.

- requires use of the unallocated margin under the relevant heading of the MFF and/or use of the special instruments as defined in the MFF Regulation.

-

- requires a revision of the MFF.

-

3.2.5. *Third-party contributions*

The proposal/initiative:

- does not provide for co-financing by third parties
- provides for the co-financing by third parties estimated below:

Appropriations in EUR million (to three decimal places)

	Year N ⁶⁴	Year N+1	Year N+2	Year N+3	Enter as many years as necessary to show the duration of the impact (see point 1.6)			Total
Specify the co-financing body								
TOTAL appropriations co-financed								

⁶⁴ Year N is the year in which implementation of the proposal/initiative starts. Please replace "N" by the expected first year of implementation (for instance: 2021). The same for the following years.

3.3. Estimated impact on revenue

- The proposal/initiative has no financial impact on revenue.
- The proposal/initiative has the following financial impact:
 - × on own resources
 - on other revenue
- please indicate, if the revenue is assigned to expenditure lines NO

EUR million (to three decimal places)

Budget revenue line:	Appropriations available for the current financial year	Impact of the proposal/initiative ⁶⁵				
		Year 2023	Year 2024	Year 2025	Year 2026	Year 2030
Article		2 000	2 000	2 000	2 000	2 600

For assigned revenue, specify the budget expenditure line(s) affected.

Revenue not assigned.

Other remarks (e.g. method/formula used for calculating the impact on revenue or any other information).

Figures presented in the table are estimates and subject to change.

⁶⁵ As regards traditional own resources (customs duties, sugar levies), the amounts indicated must be net amounts, i.e. gross amounts after deduction of 20 % for collection costs.



EUROPEAN
COMMISSION

Brussels, XXX
[...] (2021) XXX draft

ANNEXES 1 to 5

SENSITIVE*

ANNEXES

to the

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

establishing of a Carbon Border Adjustment Mechanism (CBAM)

* Distribution only on a 'Need to know' basis - Do not read or carry openly in public places. Must be stored securely and encrypted in storage and transmission. Destroy copies by shredding or secure deletion. Full handling instructions <https://europa.eu/db43PX>

ANNEX I
List of goods

1. For the purpose of the identification of goods, this Regulation shall apply to goods currently falling under the CN codes listed below.
1. References to the CN codes below shall be those of Commission Implementing Regulation (EU) 2020/1577 ⁽¹⁾.

Cement

CN code
2523 10 00 – Cement clinkers
2523 21 00 – White Portland cement, whether or not artificially coloured
2523 29 00 – Other Portland cement
2523 30 00 – Aluminous cement
2523 90 00 – Other hydraulic cements

Electricity

CN code
2716 00 00 – Electrical energy

Fertilisers

CN code		
2808 00 00 – Nitric acid; sulphonitric acids		
2814 – Ammonia, anhydrous or in aqueous solution		
3102 – Mineral or chemical fertilisers, nitrogenous		
3105 – Mineral or chemical fertilisers containing two or three of the fertilising elements nitrogen, phosphorus and potassium; other fertilisers; goods of this chapter in tablets or similar forms or in packages of a gross weight not exceeding 10 kg		
- Except:	CN code 3105 60 00	Mineral or chemical fertilisers containing the two fertilising elements phosphorus and potassium

¹ Commission Implementing Regulation (EU) 2020/1577 of 21 September 2020 amending Annex I to Council Regulation (EEC) No 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff (OJ L 361, 30.10.2020, p. 1).

Iron and Steel

CN code
7205 – Granules and powders, of pig iron, spiegeleisen, iron or steel
7206 – Iron and non-alloy steel in ingots or other primary forms (excluding iron of heading 7203)
7207 – Semi-finished products of iron or non-alloy steel
7208 – Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated
7209 – Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, cold-rolled (cold-reduced), not clad, plated or coated
7210 – Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated
7211 – Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, not clad, plated or coated
7212 – Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, clad, plated or coated
7213 – Bars and rods, hot-rolled, in irregularly wound coils, of iron or non-alloy steel
7214 – Other bars and rods of iron or non-alloy steel, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but including those twisted after rolling
7215 – Other bars and rods of iron or non-alloy steel
7216 – Angles, shapes and sections of iron or non-alloy steel
7217 – Wire of iron or non-alloy steel
7303 00 – Tubes, pipes and hollow profiles, of cast iron
7304 – Tubes, pipes and hollow profiles, seamless, of iron (other than cast iron) or steel
7305 – Other tubes and pipes (for example, welded, riveted or similarly closed), having circular cross-sections, the external diameter of which exceeds 406,4 mm, of iron or steel
7306 – Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel
7307 – Tube or pipe fittings (for example, couplings, elbows, sleeves), of iron or steel

Aluminium

CN code
7601 – Unwrought aluminium
7603 – Aluminium powders and flakes
7604 – Aluminium bars, rods and profiles
7605 – Aluminium wire
7606 – Aluminium plates, sheets and strip, of a thickness exceeding 0,2 mm
7607 – Aluminium foil (whether or not printed or backed with paper, paper-board, plastics or similar backing materials) of a thickness (excluding any backing) not exceeding 0,2 mm
7608 – Aluminium tubes and pipes
7609 00 00 – Aluminium tube or pipe fittings (for example, couplings, elbows, sleeves)

ANNEX II
Countries and territories outside the scope of this Regulation

1. This Regulation shall not apply to goods originating in the following countries:
 - Iceland
 - Liechtenstein
 - Norway
 - Switzerland
2. This Regulation shall not apply to goods originating in the following territories:
 - Büsingen
 - Helgoland
 - Livigno
 - Ceuta
 - Melilla

ANNEX III
Methods for calculating embedded emissions

1. Definitions

For the purpose of this Annex, the following definitions applies:

- (1) ‘simple good’ means a good produced in a production process requiring exclusively input materials and fuels having zero embedded emissions;
- (2) ‘complex good’ means a good requiring the input of other goods in its production process;
- (3) ‘specific embedded emissions’ means the embedded emissions of one tonne of a product, expressed as tonne of CO₂e emissions/tonne product;
- (4) ‘power purchase agreement’ means a contract under which a person agrees to purchase electricity directly from an electricity producer;
- (5) ‘Transmission System Operator’ means an operator as defined in Article 2(35) of Directive (EU) 2019/944 of the European Parliament and of the Council ⁽²⁾.

2. Measuring actual embedded emissions for a simple good

For determining the installation-specific value of the specific embedded emissions of a simple good, the following equation is to be applied:

$$SEE_g = \frac{AttrEm_g}{AL_g}$$

Where SEE_g are the specific embedded emissions of good G, in terms of CO₂e per ton, $AttrEm_g$ the attributed emissions of the good G, and AL_g the activity level of the good. The activity level is the amount of good produced in the reporting period in that installation, applying the good definitions given in the implementing act pursuant to Article 7.

‘Attributed emissions’ mean the part of the installation’s direct and indirect emissions during the reporting period that are caused by the production process resulting in the good G applying the system boundaries of the process defined by the implementing act pursuant to Article 7. Attributed emissions shall be calculated using the following equation:

$$AttrEm_g = DirEm + Em_{H,imp} - Em_{H,exp} + G_{corr,imp} - G_{corr,exp} + Em_{el} - Em_{el,exp}$$

Where $DirEm$ are the direct greenhouse gas emissions from the process within the system boundaries given in the implementing act pursuant to Article 7,

$Em_{H,imp}$ are the indirect emissions accounted for heat imported to the installation and consumed within the system boundaries of the process,

$Em_{H,exp}$ are emission equivalents of heat exported from the process system boundaries,

$G_{corr,imp}$ is a correction factor taking into account imports of waste gases or greenhouse gases used as process input,

² Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU (OJ L 158, 14.6.2019, p. 125).

$G_{corr,exp}$ a similar correction factor for exports of such gases from the system boundaries of the process,

Em_{el} are the indirect emissions accounted for electricity consumed within the system boundaries of the process,

$Em_{el,exp}$ are emission equivalents of electricity exported from the process system boundaries.

E_{mH} is to be calculated using the CO_{2e} emission factor for heat given in the implementing act pursuant to Article 7, Em_{el} is to be calculated using the emission factor for electricity given in that act. For G_{corr} the implementing act shall specify the types of gases and of their use eligible for corrections, and relevant calculation factors.

3. **Measuring actual embedded emissions for a complex good**

For determining the installation-specific value of the specific embedded emissions of a complex good, the following equation is to be applied:

$$SEE_g = \frac{AttrEm_g + EE_{ImpMat}}{AL_g}$$

Where EE_{ImpMat} are the embedded emissions of the input materials (precursors) consumed in the production process. Only materials listed as relevant to the system boundaries of the production process as specified in the implementing act pursuant to Article 7 are to be considered. The relevant EE_{ImpMat} are calculated as follows:

$$EE_{ImpMat} = \sum_{i=1}^n M_i \cdot SEE_i$$

Where M_i is the mass of input material i used in the production process, and SEE_i its specific embedded emissions for the input material. For SEE_i the operator of the installation shall use the actually monitored value of the installation from where the input material has been received, provided that that installation's data can be adequately measured.

4. **Determination of default values in Article 7 (2) and (3)**

If actual monitoring data in accordance with points 2 and 3 above cannot be adequately provided, a default value shall apply.

For the purpose of the Commission determining default values, only actual values shall be used for the determination of embedded emissions. In the absence of actual data, literature values may be used. For emission factors of heating and cooling, and of electricity, and for the approach taken to correct for waste gases or greenhouse gas used as process material, the Commission shall publish guidance before collecting the data required to determine the relevant default values.

Default values shall be determined based on the best available data. They shall be revised periodically through implementing acts based on the most up-to-date and reliable information, including on the basis of information provided by a third country or group of third countries.

4.1 Default values in Article 7(2)

They shall be set at least at the level corresponding to the emissions of the 10 per cent worst performing installations in the EU for each of the processes involved in the production of the relevant good.

4.2 Default values for imported electricity in Article 7 (3)

Default values for imported electricity shall be determined based on either specific default values for a third country, group of third countries or region within a third country, or if these are not available, on EU default values.

4.2.1 Specific default values for a third country, group of third countries or region within a third country

Specific default values shall be based on the best data available to the Commission determining the average CO₂ emission factor in tonne of CO₂ equivalent per megawatt-hour of price-setting sources in the third country, group of third countries or region within a third country.

Where specific default values are determined for a third country, a group of third countries or a region within a third country, and electricity is imported from another third country or another region into the third country, or another group of third countries or region within a third country with the purpose of being re-exported to the Union the same specific default value may not be used.

4.2.2 Alternative default values

Where no specific default value has been determined for a third country, a group of third countries, or a region within a third country, the default value for electricity shall represent the CO_{2e} emission factor, in tonne of CO_{2e} per megawatt-hour. This means the weighted average of the CO_{2e} intensity of electricity produced from fossil fuels in the EU. The weight reflects the production mix of the fossil fuels in the EU. The CO_{2e} factor is the result of the division of the CO_{2e} emission data of the energy industry divided by the gross electricity generation based on fossil fuels in megawatt-hour.

Where a third country, or a group of third countries having significant exchange of electricity with the EU, demonstrate to the Commission, on the basis of reliable data, that the average CO_{2e} emission factor of price-setting sources in the third country or group of third countries are lower than the EU or the specific default value, an alternative default value based on this average CO_{2e} emission factor shall be established for this country or group of countries.

Where alternative default value is defined for a third country or another region into the third country, or another group of third countries or region within a third country, and electricity is imported from another third country or another region into the third country, or another group of third countries or region within a third country into the third country subject to the alternative default value, the same alternative default value may not be used.

4.3 Default values for indirect emissions

Indirect emissions embedded in goods produced in a third country, shall be based on a default value calculated on the average CO_{2e} intensity of the electricity mix applicable in the country of origin of the electricity used for the production shall apply.

The average CO₂e intensity of all the countries of origin shall be established by the Commission on a yearly basis based on the best available data.

Where a third country, or a group of third countries, demonstrate to the Commission, on the basis of reliable data, that the average CO₂e emission factor of price-setting sources in the third country or group of third countries are lower than the default value for indirect emissions, an alternative default value based on this average CO₂e emission factor shall be established for this country or group of countries.

4.4 Default values in Article 41 (transitional regime)

Default values referred to in Article 41 shall be determined according to the methods set out above. They shall be set at levels corresponding to the average emissions in the EU to produce similar goods.

Where a third country, or a group of third countries demonstrate to the Commission, on the basis of reliable data, that the average emission intensity of a product in the third country or group of third countries are lower than the default value, a different default value based on such emissions data can be established for this country or group of countries. Where specific values are defined for a third country or a group of third countries for a specific good, such good imported from other third countries into the third countries subject to the specific value may not be re-exported to the Union using the specific value defined.

5. Conditions to applying actual embedded emissions in electricity

An authorised declarant may require to apply actual embedded emissions instead of default values for the calculation referred to in Article 7 if the following cumulative criteria are met:

- (a) the authorised declarant has concluded a power purchase agreement with a producer of electricity located in a third country for an amount of electricity that is equivalent to the amount for which the use of a specific value is claimed;
- (b) the installation producing electricity is either directly connected to the EU transmission system or it can be demonstrated that at the time of export, there was no physical network congestion at any point in the network between the installation and the EU transmission system;
- (c) an equivalent amount of electricity to the electricity for which the use of actual embedded emissions is claimed has been firmly nominated to the allocated interconnection capacity by all responsible transmission system operators in the country of origin, the country of destination and, if relevant, each third country of transit, and the nominated capacity and the production of electricity by the installation referred to in point (b) refer to the same period of time which shall not be longer than one hour;
- (d) meeting the above criteria is certified by an accredited verifier. The verifier shall receive at least monthly interim reports demonstrating how the above criteria are fulfilled.

The accumulated amount of electricity under the power purchase agreement and its corresponding actual embedded emissions shall be excluded from the calculation of the country CO₂e average intensities used for the purpose of the calculation of indirect electricity embedded emissions in goods.

6. Adaptation of default values based on region specific features

Default values can be adapted to particular areas, regions of countries where specific characteristics prevail in terms of objective factors such as geography, natural resources, market conditions, energy mix, or industrial production. When data adapted to these specific local characteristics are available and can define more targeted default values, the latter may be used instead of default values based on EU installations.

Where a third country, or a group of third countries demonstrate to the Commission, on the basis of reliable data, that alternative region specific adaptation of default values are lower than the default values defined by the Commission the former can be used.

ANNEX IV
Declaration and documentation requirements

1. Minimum data to be declared for an imported good:
 - (a) Data identifying the authorised declarant:
 - (i) name,
 - (ii) a unique identifier assigned by the CBAM Authority;
 - (b) Data on the imported good(s):
 - (i) type and quantity of each good;
 - (ii) country of origin;
 - (iii) whether specific effective embedded emissions or default values are used.

2. Minimum data to be documented for the declaring embedded emissions in imported goods on the basis of specific effective embedded emissions:

For each import of a good for which the authorised declarant indicated under point 1, the following additional data has to be reported:

 - (a) Identification of the installation where the good was produced;
 - (b) contact information of its operator;
 - (c) identification of the applicable verified emissions report;
 - (d) the values used for the specific effective embedded emissions of the good imported.

3. Minimum content of an emission report for demonstrating actual effective embedded emissions of each declared good:
 - (a) name of the installation;
 - (b) name of the operator of the installation;
 - (c) country, address, and contact data of a contact person;
 - (d) name of the verifier, contact data;
 - (e) the applicable reporting period;
 - (f) direct emissions of the installation in the reporting period;
 - (g) quantities of consumption, production and exports of electricity, heating and cooling;
 - (h) the applicable emission factors for electricity, heating and cooling;
 - (i) quantities of each declared good produced in the reporting period; Aggregated values may be reported for all good types falling under the same category of goods;
 - (j) a short explanation how the installation's emissions, quantities of electricity, heating and cooling are attributed to different declared goods;
 - (k) quantitative information on declared goods, emissions and energy flows not associated with those goods;

- (l) in case of complex goods:
 - (i) quantities of input materials (precursors) used;
 - (ii) the specific effective embedded emissions values used;
 - (iii) in case other values than the default values determined in accordance with Article 8 are used: Identification of the installation where the input material has been produced and reference to the associated emission report submitted to the CBAM Authority.

ANNEX V
Verification principles

1. Verifiers referred to in this Regulation are:
 - verifiers accredited pursuant Article 15 of Directive 2003/87/EC;
 - verifiers in third countries with which the Union has an agreement for recognising accreditation of such verifiers;
 - verifiers accredited by the CBAM authority in accordance with Article 18.
2. Relevant EU legislation shall be applied to the verification of emission reports to determine effective embedded emissions in accordance with Annex III. The implementing acts to be adopted by the Commission in accordance with Article 8 shall build upon existing legislation for the verification of emissions and activity data for stationary installations covered by Directive 2003/87/EC, in particular the acts adopted pursuant to Article 15 of that directive.
3. The following principles shall apply for verifications requested by this Regulation:
 - (a) verifiers shall carry out verifications with an attitude of professional scepticism;
 - (b) an emissions report shall be verified as satisfactory only if the verifier finds with reasonable assurance that the report is free of material misstatements, the report is free of material non-conformities with the calculation rules of Annex III;
 - (c) installation visits by the verifier shall be mandatory except where specific criteria for waiving the installation visit are met. Those criteria shall be specified by the implementing acts adopted in accordance with Article 9;
 - (d) for deciding whether misstatements or non-conformities are material, the verifier shall use thresholds given by the implementing acts adopted in accordance with Article 8. For parameters for which no such thresholds are defined, the verifier shall use expert judgement to whether misstatements, individually or when aggregated with other misstatements, justified by their size and nature, have to be considered material, i.e. whether they could affect the treatment of the report by the intended users, in particular the CBAM Authority.
4. A verification report shall include, at least, the following information:
 - (a) identification of the installation, and its operator;
 - (b) the reporting period;
 - (c) information on the verifier:
 - (d) name of the verifier;
 - (e) name of the lead verifier;
 - (f) ID of accreditation, name of the Accreditation Body;
 - (g) the date of the site visit, if applicable, or the reasons for not carrying out an installation visit;
 - (h) the verification opinion statement;

- (i) information on material misstatements found and not corrected, if applicable;
- (j) information of non-conformities with calculation rules of Annex III



EUROPEAN COMMISSION
Regulatory Scrutiny Board

Brussels,
RSB

Opinion

Title: Impact assessment / Carbon Border Adjustment Mechanism

Overall opinion: POSITIVE WITH RESERVATIONS

(A) Policy context

To achieve climate neutrality by 2050, the Commission has proposed to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990. As long as most international partners do not share the same climate ambition as the EU, there is a risk of carbon leakage. Carbon leakage occurs when production is transferred from the EU to other countries with lower climate ambition, or when EU products are replaced by more carbon-intensive imports. Hence, there would be no reduction in global emissions, despite EU climate efforts.

This initiative aims to set up a carbon border adjustment mechanism (CBAM) that would ensure that the price of imports reflects more accurately their carbon content. The measure needs to comply with World Trade Organization rules and other international obligations. It would be an alternative to the measures that currently address the risk of carbon leakage in the EU's Emissions Trading System (ETS) and the EU state aid rules.

(B) Summary of findings

The Board notes the useful additional information provided in advance of the meeting and commitments to make changes to the report. It also notes the significant efforts to coordinate and ensure coherence across the 'Fit for 55' initiatives.

However, the report still contains significant shortcomings. The Board gives a positive opinion with reservations because it expects the DG to rectify the following aspects:

- (1) The report is not clear enough on why existing measures would not be sufficient to address the risk of carbon leakage.**
- (2) The report does not sufficiently explain how this initiative will be coherent with the new ETS proposal, including in the timing of their implementation.**
- (3) The report does not clearly identify and discuss some of the key impacts of the initiative. It does not compare the costs and benefits of the centralised and decentralised administrative implementation options. It does not sufficiently**

This opinion concerns a draft impact assessment which may differ from the final version.

discuss the risks for a timely implementation. It does not sufficiently assess the impacts on the competitiveness of EU exporters and the risks of resource shuffling.

(4) The report does not take sufficient account of different stakeholder groups' views.

(C) What to improve

- 1) The report should be self-standing. It should describe the existing measures to prevent carbon leakage and better identify their weaknesses.
- 2) The report should strengthen the discussion on the coherence with the new ETS proposal. It should explain to what extent the ETS revision depends on the CBAM initiative. The report should justify why it deviates from the ETS on some aspects, such as sectoral coverage and the inclusion of transport emissions. It should better explain why it proposes a parallel system with CBAM certificates to match the carbon content of imports, instead of ETS allowances. The report should be more explicit on the envisaged timeframe for the gradual introduction of CBAM and its coherence with the revision of the ETS.
- 3) The report should better present and analyse the costs and benefits of different administrative options, in particular centralised versus decentralised implementation, to clearly inform the political choices. It should discuss the risks for a timely implementation, in particular linked to the development of IT systems and the potential set-up of a central administrative CBAM body.
- 4) As CBAM is an alternative to free allowances, the initiative should be mainly compared with the scenario with free allowances, and not with the counterfactual with full auctioning.
- 5) The impact analysis should better highlight the effects of the introduction of CBAM on the competitiveness of EU exporters on third-country markets. It should better integrate the risks and consequences of resource shuffling and of carbon leakage down the value chain.
- 6) While global emissions and engaging with third countries are part of the (specific) objectives, the relation with third countries should receive more attention. The report should explain how the CBAM initiative is consistent with the Paris Agreement, and its parties setting their own ambition levels.
- 7) The report should systematically take into account the comments made by the different stakeholder groups throughout the report. In particular, it should be transparent on their positions on the different options and confront any concerns with the findings of the analysis.
- 8) The methodological section (in the annex), including methods, key assumptions, and baseline, should be harmonised as much as possible across all 'Fit for 55' initiatives. Key methodological elements and assumptions should be included concisely in the main report under the baseline section and the introduction to the options. The report should refer explicitly to uncertainties linked to the modelling. Where relevant, the methodological presentation should be adapted to this specific initiative.

Some more technical comments have been sent directly to the author DG.

(D) Conclusion

The DG may proceed with the initiative.

The DG must revise the report in accordance with the Board's findings before launching the interservice consultation.

If there are any changes in the choice or design of the preferred option in the final version of the report, the DG may need to further adjust the attached quantification tables to reflect this.

Full title	Updating the EU Emissions Trading System
Reference number	Plan/2020/6513
Submitted to RSB on	17 March 2021
Date of RSB meeting	21 April 2021

ANNEX: Quantification tables extracted from the draft impact assessment report

The following tables contain information on the costs and benefits of the initiative on which the Board has given its opinion, as presented above.

If the draft report has been revised in line with the Board's recommendations, the content of these tables may be different from those in the final version of the impact assessment report, as published by the Commission.

Table 3-2: Overview of Benefits for Preferred Option – Option 4

<i>I. Overview of Benefits (total for all provisions) – Preferred Option</i>		
<i>Description</i>	<i>Amount</i>	<i>Comments</i>
<i>Benefits</i>		
Supporting reduction of GHG Emissions	Impact on carbon dioxide (CO ₂) emissions in the CBAM sectors in EU27 and rest of the world (% change from MIX with free allocation in 2030): <ul style="list-style-type: none"> - -2.60% in the EU in 2030 - -0.30% in the rest of the world in 2030 	By reducing GHG emissions in the EU, CBAM will enable the EU to achieve its increased targets for 2030 and become carbon neutral by 2050.
Preventing carbon leakage in CBAM sectors	Under option 4, carbon leakage in CBAM sectors is brought down to -23% in 2030	Preventing carbon leakage is important to ensure that global emissions and imports of carbon embedded products do not rise as a result of the relocation of industry from EU.
Revenue generation	The yearly revenue stemming from CBAM is expected to be around: <ul style="list-style-type: none"> - EUR 8.5 billion in 2025 (6.3 billion EUR from auctioning and 2.2 billion EUR from CBAM) - EUR 14.7 billion in 2030 (12.1 billion EUR from auctioning and 3.0 billion EUR from CBAM) 	- Revenue generated is made up of both the revenues from the CBAM itself, and from additional auctioning in the CBAM sectors

Table 3-3: Overview of costs for Preferred Option – Option 4

		II. Overview of costs – Preferred option					
		Citizens/Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Economic and social costs in the EU	Direct costs	- loss of employment by 1.10% on CBAM sectors in EU27 in 2030	- Products subject to CBAM leading to a minimal decrease in consumption of 0.42% - expected limited increase in electricity prices - expected limited increase in vehicle and household equipment products	Cost of new technologies	Compliance costs (See below)	None	None
	Indirect costs	- minimal loss of employment in downstream sectors		None	None	None	None

Enforcing CBAM		None	None	None	- compliance costs for quantification of emissions, documentation, reporting - Higher compliance costs for SMEs - compliance costs for buying and surrendering CBAM certificates	- setting up systems CBAM facility - setting up system for certificates	up (e.g. for	- Enforcement costs on processing documents, payments and controlling goods. - Cost of administering registry accounts for transactions of CBAM certificates - Costs for monitoring, verification and reporting of carbon content
	Direct costs	None	None	None				
	Indirect costs	None	None	None	None	None	None	None