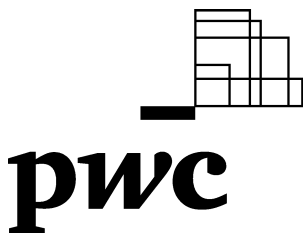




October 2023

EU CBAM first reporting period
started on October 1 -
it's time to act
for Middle East producers





1. In brief

Starting October 1, 2023, the EU Carbon Border Adjustment Mechanism (CBAM) applies to import of the following product groups to the EU from non-EU countries (including the Middle East):

- Aluminium
- Iron and Steel
- Fertilisers
- Hydrogen
- Electricity
- Cement

Many producers in the Middle East, primarily in aluminium, fertiliser and steel industries, are impacted by EU CBAM starting October 1. Furthermore, taking into account **the planned extension of EU CBAM scope**, in the next few years CBAM might become relevant for many more companies in the Middle East producing polymers, organic chemicals, petroleum products and other commodities.

Based on the CBAM regulations, **before the end of 2025**, the EU should assess the possibility **to extend the scope of CBAM to:**

- indirect emissions related to **electricity** for iron & steel, aluminium and hydrogen
- emissions related to **transportation**
- other products, and specifically **organic chemicals and polymers**
- other **precursors**

Before 2030 the CBAM scope might be extended to all the product groups currently covered by the EU Emission Trading System (EU ETS), for example: **crude petroleum, petroleum products, inorganic chemicals, industrial gases, synthetic rubber, non-ferrous metals, aviation, shipping** and others.

In the CBAM transitional period starting October 1, 2023, there are requirements for quarterly reporting of embedded greenhouse gas (GHG) emissions of products imported to the EU, with the first reporting to be submitted **by January 31, 2024**. While the report would be submitted by the importer or indirect customs representative, the data for reporting should be provided by the non-EU producers in a specified form. In case of failure to report correctly, penalties would apply even during the transitional period.

In the CBAM definitive period starting January 1, 2026 only the “authorized CBAM declarants” would be allowed to import the CBAM products to the EU. There would be more obligations in relation to CBAM, including purchasing CBAM certificates, verification of GHG emissions data and submission of annual CBAM declaration.

The price of CBAM certificates would be linked to the weekly carbon prices at the EU ETS market (currently exceeding EUR 80 per ton of CO₂). With the gradual abolishment of the free carbon quotas in the EU, there is an **expectation of further increase of carbon price in the EU ETS**.

In this newsletter we touch upon several issues related to the CBAM transitional period and preparation to the first CBAM quarterly reporting.

2. CBAM Reporting obligations in the transitional period

The obligation to submit the quarterly reports is with the **reporting declarant** (an EU established entity), that could be:

- the importer who lodges a customs declaration for release for free circulation of goods in its own name and on its own behalf; or
- the person, holding an authorisation to lodge a customs declaration, who declares the importation of goods; or
- the indirect customs representative in certain cases.

Reporting declarants can request the producer to provide the information required for quarterly reporting in **the CBAM communication template** for installations, an excel template published by the EU Commission.

For the producers it is important not only to **gather information** required for the reporting and fill in the **CBAM communication template**, but also to **align with the reporting declarants** to ensure their readiness for the reporting. Also, there might be a need to consider certain contractual terms with the importers or customs representatives, for example, in relation to confidentiality issues (since data required for CBAM reporting might be sensitive) and responsibility in case penalties would be applied.

3. What needs to be reported quarterly?

CBAM quarterly report will contain detailed information on the producing installation, overall GHG emissions of the installation, embedded emissions of the products imported, information on carbon taxes paid in the jurisdiction of origin (if any). On each type of imported goods it would be required to outline the associated CN code, production volumes, specific direct embedded emissions, data quality and determination approaches, specific indirect embedded emissions, methods and information sources used as well as sector-specific information.

Verification would not be required for the periods before January 1, 2026.

4. EU CBAM methodology

EU CBAM methodology outlined in the Implementation regulations is aligned with the methodology used for EU ETS (please note that there are certain differences from GHG Protocol). Based on our experience, the majority of large producers of CBAM goods already have a GHG calculation methodology in place. For CBAM purposes, EU allows temporary use of non-EU methodologies, however only if the MRV (monitoring, reporting, verification) system meets certain requirements and the methodology provides accuracy and coverage in line with the EU methodology. However, even in this case use of non-EU methodology would be allowed till the end of 2024 only. Thus, the producers are encouraged to develop and implement CBAM methodology as soon as possible.

Starting 2025, only the EU methodology would be accepted for CBAM purposes. In addition to the **monitoring plan** and **monitoring methodology**, there is also a requirement to provide a document outlining the **internal processes, roles and responsibilities** in relation to CBAM. There are also recommendations with respect to the possible risk areas which the producers should consider when designing **control environment and quality management** for CBAM purposes. If your company has already implemented a GHG methodology, it could be a good starting point for development of the CBAM methodology. We recommend to start with the gap assessment of the existing GHG methodology in order to align to the extent possible and not to create additional costs.

5. What if the actual GHG emissions data would not be available?

In case the data on actual embedded emissions for the producer would not be available (or reliable), one of the options would be to use default emissions data up published by the EU Commission.

The default values for the transitional period should be published before the end of 2023. Default emissions are expected to be set at a relatively high level, which might be higher than the actual emissions intensity of the Middle East producers.



The takeaway

If your company exports to the EU the products which are already in the scope of EU CBAM, or likely to be included in the scope of CBAM, we would recommend you consider the following.

Urgent issues to consider

- Gather the information required to fill in the “CBAM communication template for non-EU installations”
- Review the current GHG methodology, documentation of processes and control environment, to assess if there are gaps in comparison to the EU CBAM methodology requirements
- Establish communications with the reporting declarants
- Identify potential contractual terms that may need to be updated/modified
- Prepare EU CBAM roadmap

Strategic issues to consider

- Development of GHG methodology in accordance with EU CBAM requirements (or “upgrade” of the current GHG methodology)
- Consideration of the “authorised CBAM declarant” role, if it would be within the group or outsourced to a third party. Considerations with respect to export structuring, financing, IT solutions and building the team
- Assessment of potential financial impact of CBAM on your exports (based on various scenarios of carbon price in the EU and CBAM scope extension)
- Consideration of commercial opportunities if your products are less carbon-intensive and are “greener” than the industry average
- Alignment with your company’s broader ESG and decarbonization strategy, including the CCS and CCUS strategy
- Choice and implementation of fit-for-purpose IT solutions for GHG accounting, process management and controls

Let's talk



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