

Alert | Regulatory & Compliance



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CBAM on Track to Take Effect in October 2023

The European Parliament (Parliament) enacted significant change to the proposed European Union (EU) Regulation for a Carbon Border Adjustment Mechanism (CBAM) in June 2022, as reported in an earlier [GT Alert](#).

Go-To Guide:

- Parliament and Council reached a provisional political agreement on CBAM in December 2022
- In February 2023, ENVI endorsed the provisional political agreement
- CBAM is expected to be implemented gradually, yet relatively swiftly

In turn, the Council and the Parliament reached a provisional political agreement on CBAM in December 2022. Following the provisional political agreement, the Council and Parliament must still formally approve CBAM before the regulation can be published in the EU Official Journal.

CBAM would require companies importing cement, electricity, fertilizers, iron, steel, aluminum, and other materials into the EU to pay a carbon adjustment at the border corresponding to the carbon price that would have been paid had the goods been produced under the EU's carbon pricing rules.

This GT Alert outlines two noteworthy developments that have arisen since December 2022.

ENVI endorses the CBAM provisional political agreement

On Feb. 9, 2023, the Parliament's Committee on Environment, Public Health and Food Safety (ENVI) endorsed the provisional political agreement reached with the Council. With 88 members, ENVI is the largest committee in the Parliament, and the one holding the pen on CBAM. 63 ENVI members voted in favor; seven voted against; seven abstained; and 11 members did not take part in the vote.

ENVI's endorsement is leading CBAM closer to formal adoption. CBAM will be on the agenda for the Parliament's April 2023 plenary session, when the final vote will take place. The Council must also formally approve CBAM before it can take effect, although typically this is more of a formality once Parliament approves.

CoR proposes minor amendments to CBAM

On March 2, 2023, the EU Committee of the Regions (CoR) published an opinion, *inter alia*, addressing and proposing several minor amendments to CBAM. CoR's opinion has been referred to ENVI for consideration. Unlike the Parliament, CoR is not an official EU institution, but rather an EU body intended to represent local and regional authorities within the EU. The Council and the European Commission are obliged to consult CoR in certain cases before taking a decision. Additionally, CoR has the right to issue opinions on its own initiative, but these opinions do not bind EU institutions. Nevertheless, the fact that CoR only proposed minor amendments increases the likelihood of CBAM becoming formally approved by the Council and the Parliament in the near future.

Next steps

Based on these recent developments, CBAM is expected to take effect in October 2023 and be fully operational in January 2026.

If CBAM receives the necessary approvals, EU importers will be required to report carbon emissions associated with the covered goods starting Oct. 1, 2023. Thereafter, these importers will need to purchase CBAM certificates beginning Jan. 1, 2026. If an EU importer can demonstrate that it has already paid for the carbon used during production of the imported goods in another country, the number of required CBAM certificates would reduce accordingly. The price of the CBAM certificates will be calculated based on the weekly average auction price of emissions allowances under the existing EU Emissions Trading System (EU ETS). The current free allowances allocated to prevent carbon leakage will be phased out over a nine-year period between 2026 and 2034.

If CBAM takes effect, importers of the covered goods will need to register, either individually or through a representative, with the relevant authority, from whom they eventually can also purchase CBAM certificates. Imports of goods from all non-EU countries will be affected by the carbon adjustment, and the adjustment is expected to affect the entire supply chain.

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