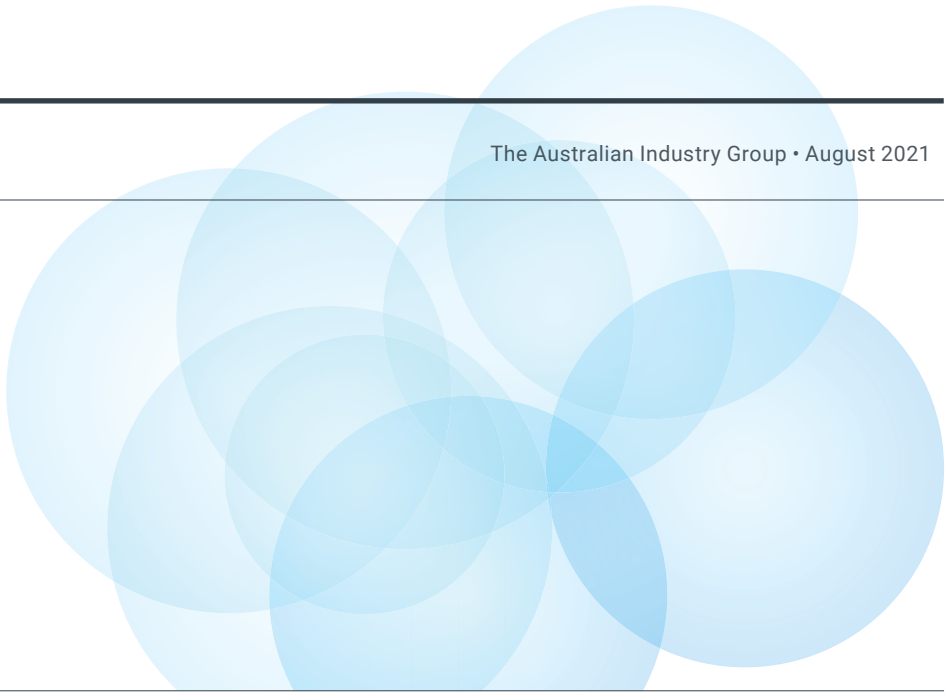


The EU Carbon Border Adjustment Mechanism and You



What will CBAM Cover?

The European Commission has released their proposed Carbon Border Adjustment Mechanism (EU CBAM) as part of their “Fit for 55” package of proposals for policies to help the EU achieve its commitment to reduce emissions by 55% by 2030.

The **EU CBAM** will be implemented as a part of their Emissions Trading System (EU ETS), not as a tariff or a tax.

Liable importers will need to buy CBAM units from designated European authorities.

- Imports of covered product must pay costs related to the EU ETS

 - Importers must buy CBAM certificates equal to their liable emissions
 - Value of CBAM certificates pegged to EU ETS Allowance average in past week
 - CBAM Certs can be retired, refunded; but not traded or banked past ~1 year
- Coverage is limited

 - Import adjustment only
 - Aluminium, Cement, Electricity, Fertiliser, Iron & Steel (initially)
 - Economies fully linked to EU ETS excluded
- Liability – individual data or defaults

 - Scope 1 emissions only (initially)
 - Emissions to be declared by importer and verified by entity accredited by EU
 - Default A: if no valid data declared, use national average for country of origin
 - Default B: if no valid national average, use EU data for worst 10% of producers
- Deductions for fairness

 - Reduce importer liability by amount of mandatory carbon price paid in Country of Origin for the declared embedded emissions.
 - Reduce importer liability by amount of free allocation to like producers in EU
 - Phase down free allocation for covered activities in EU ETS

What will happen when?

To 2023

- Commission, Member States and Parliament finalise CBAM design and prep for implementation

2023-25

- CBAM commences 2023 as reporting requirement, no financial adjustment
- Commission reviews whether to add products; include indirect emissions; extend to embodied emissions including transport

2026-35

- CBAM liabilities commence 2026 Free allocation to EU producers for covered activities phases down 10%pa.

How much of Australia’s exports will be impacted by the initial scope of EU CBAM?

Covered Product	Australian exports to EU, average 2017-19 (\$A/yr, m)	% of total Australian exports of that product, average 2017-19
Aluminium	13.5	0.35%
Cement	0	0%
Electricity	0	0%
Fertiliser	1.2	0.54%
Iron and Steel	60.8	4.99%