

New rules on carbon taxation: Cross-Border Adjustment Mechanism (CBAM)

Carbon tax policies are a fundamental instrument used by governments to achieve their decarbonization commitments and reach their emission reduction targets. The Cross-Border Adjustment Mechanism (CBAM) that will enter into force in the EU from 1 January 2023, marks a major step in the EU carbon pricing policy that will affect businesses, including Swiss-based companies, operating in the EU region.

The CBAM will introduce a carbon price on imports of specific products with a high risk of emissions to prevent the relocation of production to countries that have lower or lax carbon emission standards compared to the EU. The initial scope of the CBAM regulation is set to apply to imports into the EU of the following products: iron and steel, cement, fertilizer, aluminum, and electricity. A potential extension to polymers (plastic), chemicals, hydrogen and ammonia is currently under discussion.

In practice, businesses importing CBAM-covered goods produced outside of the EU will have to assess the emissions embedded in their products and purchase CBAM certificates (equivalent to emission allowance certificates issued under the EU's ETS system). Businesses will also have to face registration and CBAM reporting obligations.

With the legislative process under way, the scope of CBAM-covered goods and the arrangements for the gradual implementation of the mechanism could be further expanded or amended. Should those amendments make it into the final CBAM regulations, the number of companies affected by the CBAM could greatly increase in the future.

Steps for immediate action (based on CBAM measures applicable as of 1 January 2023):

With CBAM expected to enter into force as of 1 January 2023, businesses should prepare now to align their business model with the new requirements:

- **Supply chain assessment:** Undertake a review of the global supply chain and product categories to assess whether they will be subject to CBAM regulations.
- **CBAM registration:** Determine which entity/entities will have to act as an authorized declarant for imports of CBAM-covered goods into the EU. These entities will need to complete their CBAM registration as of 1 January 2023.
- **Data review:** Evaluate data availability and quality for CBAM measuring and reporting: track what data on embedded emissions is available and whether these are relevant for CBAM reporting, check whether data is collected from third-party vendors / determine whether the implementation of GHG verification systems is required
- **CBAM reporting:** Define compliance processes and manage the submission of CBAM reports that will have to be submitted on a quarterly basis as of 1 January 2023.

While the full scope of CBAM measures will be gradually implemented as of 2026, businesses will need to timely prepare for future developments, such as the extension of CBAM scope to new product categories and the financial impact on the cost of goods that will arise from the obligation to purchase CBAM certificates to cover the embedded emissions of their imports. Going forward, businesses should focus on analyzing carbon pricing measures as part of the tax planning strategy and consider possible optimizations to transform their global supply chain model.

Challenges

Businesses will need to assess their supply chain operations to identify the product categories and trade flows of imports into the EU that may be impacted by CBAM regulations.

- Businesses responsible for importing CBAM-covered goods in the EU sourced from non-EU production sites will need to ensure the collection of the relevant data on embedded emissions from their suppliers.
- Implementing a methodology for measuring and calculating emissions embedded in covered products according to CBAM standards could prove rather

challenging if production is spread across different jurisdictions with varying carbon tax and CO₂ emissions policies.

- Businesses must scrutinize the processes required to monitor the emissions performance of their supply chain and verify their emissions methodology and the quality of available data required for CBAM reporting.
- Besides observing compliance and reporting obligations, companies must consider the impact of emission allowances as part of their production costs and ensure the resilience of their pricing model to the new requirements.

How KPMG can help

- Perform readiness workshops to increase business awareness of CBAM.
- Support businesses to assess potential impacts of CBAM across their supply chain operations.
- Support with emissions measurement and verification of the methodology standards applied to calculate embedded emissions in accordance with CBAM.
- Review availability and quality of the import data required for CBAM reporting purposes, as well as with CBAM compliance (registration, reporting).
- Support businesses with their contractual processes to integrate CBAM requirements, including defining and drafting a framework for contractual commitment and liabilities.
- Tax planning and supply chain transformation reviews to align with CBAM requirements and optimize supply chain capabilities.
- Evaluate CBAM risks in due diligence processes.



Your benefits

- Global team of tax, customs, and regulatory experts to help you understand CBAM developments and explore opportunities to manage or mitigate exposure
- Data-driven approach to accurately track and measure exposure to carbon pricing and adjustment measures
- Advisory support with impact measurement and verification processes of carbon emissions
- Comprehensive, value-based strategic tax planning to increase carbon performance of the supply chains

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