



Expert CBAM Analysis and Reporting

FAQS ON THE CARBON BORDER ADJUSTMENT MECHANISM



CBAM

Carbon Border Adjustment Mechanism



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1. How does the CBAM work?

The Carbon Border Adjustment Mechanism (CBAM) aligns with the EU's international obligations, including WTO rules, and operates alongside the EU ETS. Key points include:

1. CBAM targets the actual embedded emissions of imported goods, using a methodology consistent with EU ETS reporting.
2. Starting in 2026, EU importers must purchase CBAM certificates reflecting the carbon price as if the goods were produced under EU rules.
3. Non-EU producers who have paid a carbon price in their country can deduct this cost from their CBAM obligations.

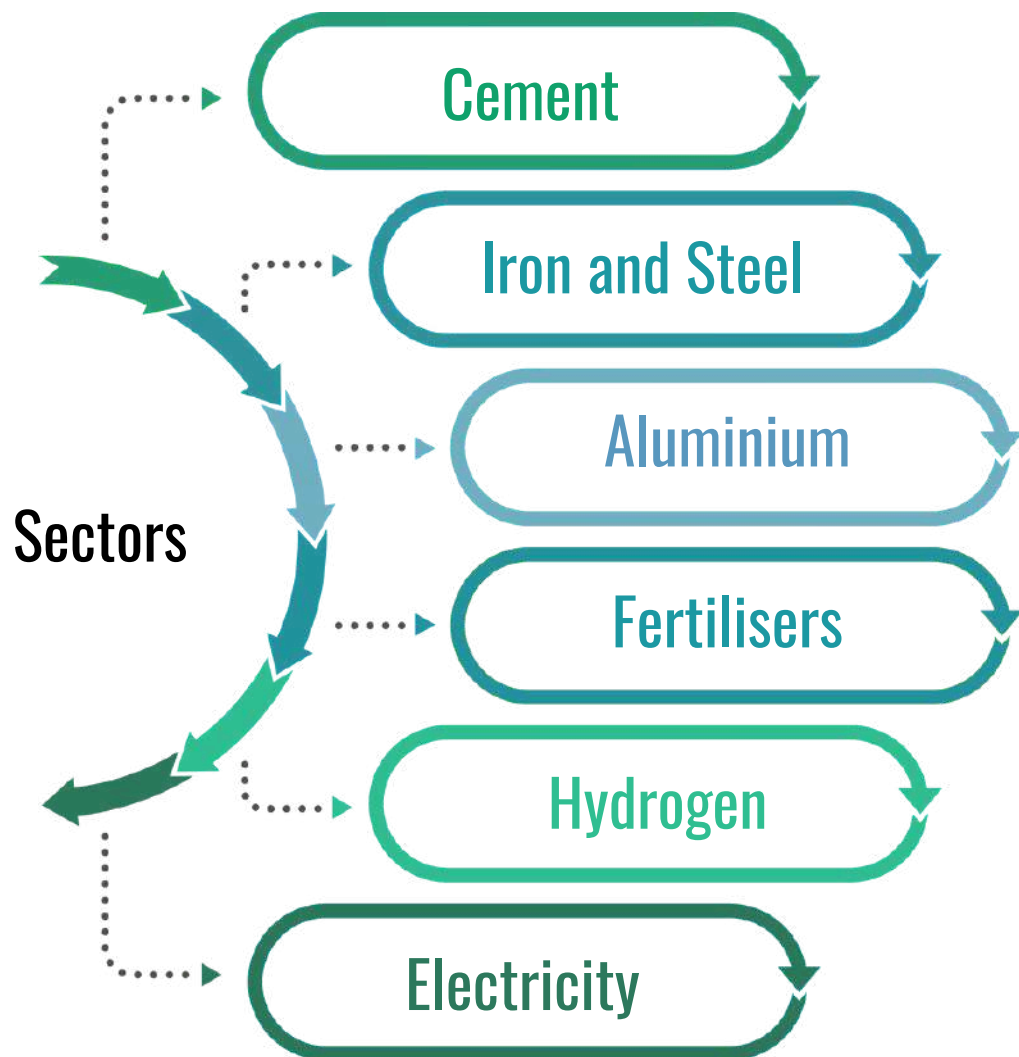
The CBAM will therefore help reduce the risk of carbon leakage while encouraging both, producers in non-EU countries to green their production processes as well as countries to introduce carbon pricing measures.



The Carbon Border Adjustment Mechanism (CBAM) is gradually being implemented to provide legal certainty for businesses and countries. Initially, it targets high-risk sectors like iron/steel, cement, fertilizers, aluminum, hydrogen, and electricity. A reporting system began on October 1, 2023, to ensure a smooth transition, with importers expected to start paying adjustments in 2026.

2. Which sectors does the new mechanism cover and why were they chosen?

The CBAM initially applies to imports of goods in the following sectors:



These sectors were selected following specific criteria, in particular their high risk of carbon leakage and high emission intensity which will eventually – once fully phased in – represent more than 50% of the emissions of the industry sectors covered by the ETS. In the future, the CBAM may be extended to other ETS sectors.

3. Are there penalties for non-compliance with the CBAM Regulation?

Yes. Reporting of embedded emissions in CBAM goods from 1 October 2023 is compulsory. Reporting declarants may face penalties ranging between EUR 10 and EUR 50 per tonne of unreported emissions.

In the case of missing, incorrect, or incomplete CBAM reports, the NCA may initiate a correction procedure, granting reporting declarants the possibility to rectify potential errors.

The NCA shall apply penalties where

- a) the reporting declarant has not taken the necessary steps to comply with the obligation to submit a CBAM report, or
- b) where the CBAM report is incorrect or incomplete, and the reporting declarant has not taken the necessary steps to correct the CBAM report after the competent authority initiated the correction procedure.



4. What are direct and indirect emissions?

SCOPES OF EMISSIONS



SCOPE 1

BURN



SCOPE 2

BUY



SCOPE 3

BEYOND

Direct emissions cover the emissions generated during the production processes of CBAM goods, including from the production of heating and cooling, irrespective of the location of the production of the heating and cooling. This means that when the production of heating and cooling takes place outside the installations, the resulting emissions are counted as direct emissions.

Indirect emissions cover the production of electricity that is consumed during the production of CBAM goods.

The embedded direct and indirect emissions of relevant precursors are also taken into account when determining the specific embedded direct and indirect emissions of CBAM goods.

During the transitional phase, for monitoring purposes, importers are required to report both direct and indirect emissions for all goods falling under the scope of CBAM. During the definite phase starting on 1 January 2026, the CBAM scope is limited to direct emissions for iron/steel, aluminium and hydrogen, while importers of cement and fertilisers will have to declare both direct and indirect emissions.



5. What obligations will importers of CBAM goods have during the definitive period?



During the definitive period, only authorised CBAM declarants may import goods into the Union (Article 4 of the CBAM Regulation). The authorised CBAM declarant is, according to Article 5 of the CBAM Regulation, as below:

- If the importer is not established in a Member State: the indirect customs representative;
- If the importer is established in a Member State: the importer, or, subject to agreement, the indirect customs representative.
- It follows that if the importer is not established in a Member State and the indirect customs representative does not have the status of authorised CBAM declarant, the concerned CBAM goods cannot be imported in the Union.
- During the definitive period, authorised CBAM declarants will have the obligation to buy and surrender CBAM certificates corresponding to the total embedded emissions in the imported CBAM goods. Authorised CBAM declarants will also have the obligation to submit annual CBAM reports.



6. What are the reporting obligations? By when do I need to submit a report?

During the transitional period of the CBAM, from 1 October 2023 until 31 December 2025, the importer shall submit a CBAM report on a quarterly basis. This report shall include the information on the goods imported during the previous quarter and should not be submitted later than one month after the end of that quarter. The reporting calendar during the transitional period is outlined below:

REPORTING PERIOD	SUBMISSION DUE BY
2023: October	December 2024: January 31
2024: January	March 2024: April 30
2024: April	June 2024: July 31
2024: July	September 2024: October 31
2024: October	December 2025: January 31
2025: January	March 2025: April 30
2025: April	June 2025: July 31
2025: July	September 2025: October 31
2025: October	December 2026: January 31

The report shall include the information referred to in Article 35 of the Regulation:

- the total quantity of each type of CBAM good;
- the actual total embedded emissions;
- the total indirect emissions;
- the carbon price due in a country of origin for the embedded emissions in the imported goods (including its relevant precursors where applicable), taking into account any rebate or other form of compensation available.

7. What is the role of the European Commission during the transitional period?

The Commission will have the following tasks during the transitional period:

- Manage the CBAM Transitional Registry.
- Review CBAM reports communicated by reporting declarants, and communicate to the NCAs a list of reports for which it has reasons to believe they are not compliant with the CBAM rules.
- Monitor the implementation of CBAM, progress, and risks of circumvention, as well as analyse the impact of CBAM on exports, downstream products, trade flows and least developed countries (LDCs).
- Prepare secondary legislation in the form of implementing acts:
 - In mid-2023 on the transitional period (art. 35), reporting obligations and reporting infrastructure.
 - In mid-2024 on the authorisation of declarants (art. 5 and 17), and the CBAM registry (art. 14).
 - In mid-2025 implementing acts on indirect emissions (annex IV), verification (art. 8), accreditation of verifiers (art. 18) carbon price paid (art. 9), information for customs (art. 25), continental shell (art. 2), average ETS price (art. 21), CBAM declaration (art. 6), methodology (art. 7) and free allocations (art. 31).
- Prepare secondary legislation in the form of delegated acts during mid-2025 for the accreditation of verifiers (art. 18) and the selling and repurchasing of certificates (art. 20). If necessary, the Commission will also prepare delegated acts on exempted countries, rules on electricity and anti-circumvention.
- Set up the Common Central Platform where the sale, repurchase of certificates will take place in the definitive period.



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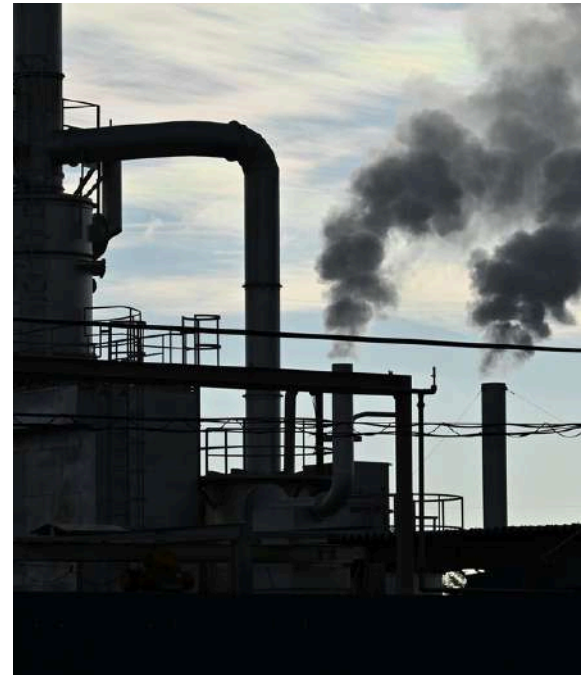
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9. How does CBAM interact with the EU Emissions Trading System (ETS)?

The EU Emissions Trading System (ETS) is the world's first international emissions trading scheme and the EU's flagship policy to combat climate change. It sets a cap on the amount of greenhouse gas emissions that can be released from power production and large industrial installations. Allowances must be bought on the ETS trading market, though a certain number of free allowances is distributed to industry to prevent carbon leakage. In order to step up the incentive to decarbonise, the CBAM will progressively be introduced as free allowances are reduced. Under the EU ETS, the number of free allowances declines over time for all sectors. For CBAM sectors, the decline accelerates as from 2026, so that the ETS can have maximum impact in fulfilling the EU's ambitious climate goals. At the same time, the CBAM financial adjustment is phased in according to a gradual schedule.



The CBAM will be based on a system of certificates corresponding to embedded emissions in CBAM products imported into the EU. The CBAM departs from the ETS in some limited areas where it was needed, as it is not a 'cap and trade' system. For example, and unlike the EU ETS, an unlimited number of certificates can be purchased. Nevertheless, the price of CBAM certificates will mirror the ETS allowance price.

Once the full CBAM regime becomes operational in 2026, the system will adjust to reflect the revised EU ETS, in particular when it comes to the reduction of available free allowances in the sectors covered by the CBAM. This means that the CBAM will only begin to apply to the products covered, and in direct proportion to the reduction of free allowances allocated under the ETS for those sectors. Put simply, until free allowances in CBAM sectors are completely phased out in 2034, the CBAM will apply only to the proportion of emissions that does not benefit from free allowances under the EU ETS, thus ensuring that importers are treated in an even-handed way compared to EU producers.



10. Reporting: CBAM Transitional Registry

What is the CBAM Transitional Registry?

- In order to ensure an efficient implementation of reporting obligations, the Commission has developed an electronic database, which will collect the information reported during the transitional period. The CBAM Transitional Registry is a standardised and secured electronic database containing common data elements for reporting in the transitional period, and to provide for access, case handling and confidentiality. The CBAM Transitional Registry is the basis for the development and establishment of the CBAM Registry pursuant to Article 14 of Regulation (EU) 2023/956.
- Importers may connect to the CBAM Transitional Registry through this link:
<https://customs.ec.europa.eu/taxud/uumds/cas>



What will the CBAM Transitional Registry be used for?

- The CBAM Transitional Registry shall enable communication between the Commission, the competent authorities, customs authorities of the Member States and reporting declarants.
- The CBAM Transitional Registry will not be used for enforcement, as the information collected will solely serve to feed onto the data analysis and collection during the transitional period.

Is the CBAM Transitional Registry the same as the EU Customs trader portal?

- The CBAM Transitional Registry for reporting declarants runs independently of the EU Customs Trader Portal (EUCTP). However existing importers that will be also acting as CBAM Declarants may be able to use their existing user account if the EU Member State allows it. Depending on the Member State, specific access to the CBAM module may need to be requested.

About Us

At CleanCarbon.ai, we believe that climate compliance isn't just a regulatory burden—it's a strategic advantage. From steel mills and aluminium plants to engineering exporters and industrial manufacturers across India, we empower businesses to navigate the complex world of carbon, trade and sustainability regulation with confidence and clarity.



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