



RESETCARBON.COM

EU Carbon Border Adjustment Mechanism (CBAM)

An Introduction for Leaders

Norwegian Business Association China
11 January 2024



Agenda

01

Introduction to RESETcarbon

02

What is CBAM?

03

What must be reported and by who?

04

How will the law roll-out?

05

Recommended Next Steps

01 Introduction to RESETcarbon

We're on a mission.

We believe that we can drive meaningful carbon reductions at scale through expertise, collaboration, and vision.

Urgent commitment and immediate action are required to tackle climate change, and we believe our team of engineers and environmental consultants can make a significant difference.

We believe that a sustainable future is possible if we work collaboratively to create positive change.




L Salter

Liam Salter
CEO, RESET Carbon



A global effect.



60+
carbon experts



11+
countries impacted



5 offices

- INDIA
- MAINLAND CHINA
- TAIWAN
- HONG KONG
- SINGAPORE

OUR CLIENTS



AEO



DF
RETAIL GROUP



G-STAR
RAW



領展
LINK

MELCO



02 What is CBAM?

What is the Carbon Border Adjustment Mechanism (CBAM)?

Environmental policy enacted under the *EU Green Deal*, mandating companies to purchase certificates priced based on 'embedded carbon' of imported products



Aims to equalize the carbon price paid for products manufactured in EU countries and global competitors



Targets specific goods which have a high carbon impact and are covered by EU emissions trading scheme

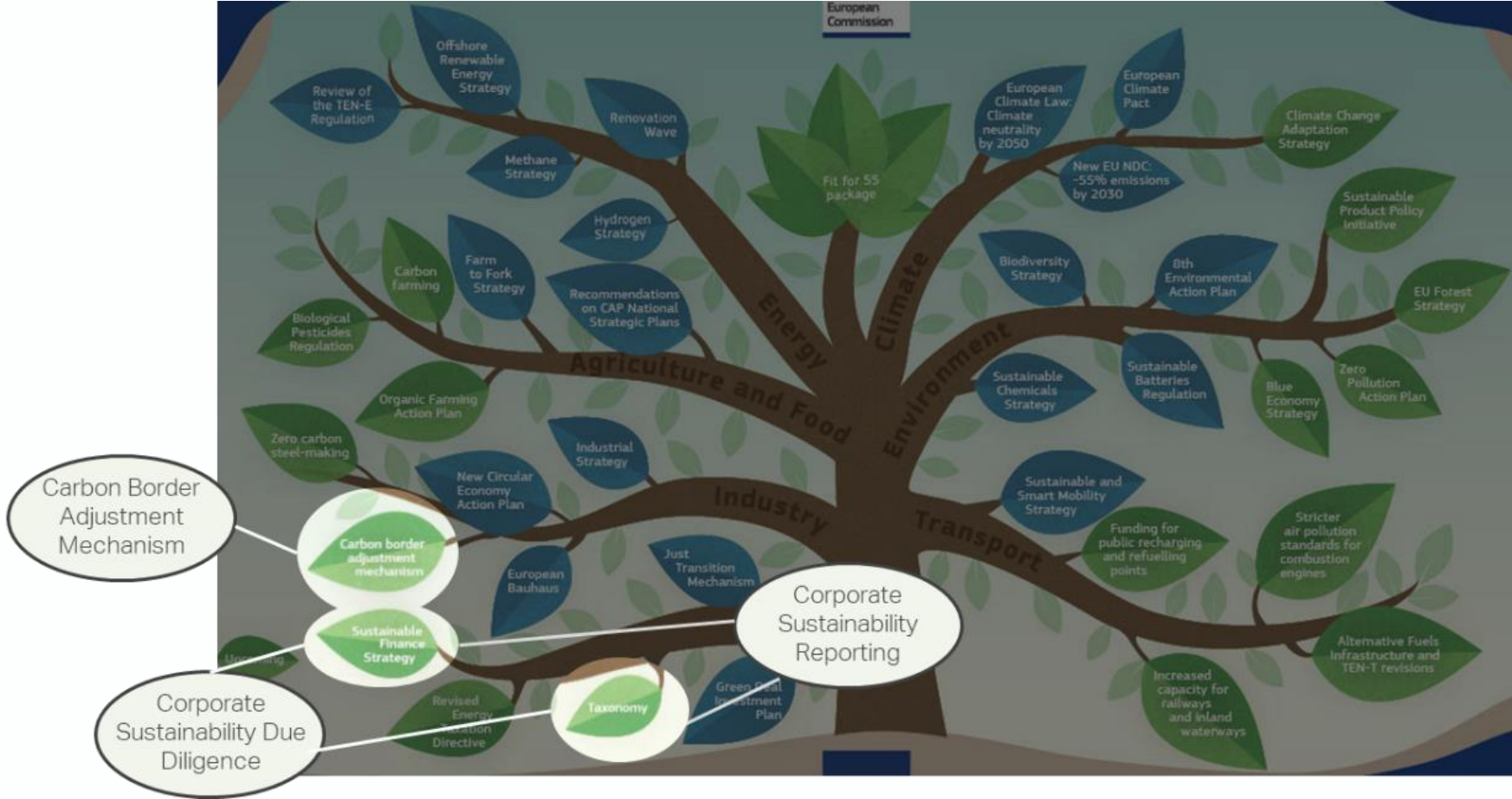


Sends a strong signal to global manufacturers that they should decarbonize

The CBAM helps avoid 'Carbon Leakage' – relocation of production to countries with lower/no carbon price in place

The CBAM is one of a suite of laws being introduced as part of the 'EU Green Deal'

'Fit for 55' package is policy framework designed to enable 55% emissions reduction by 2030

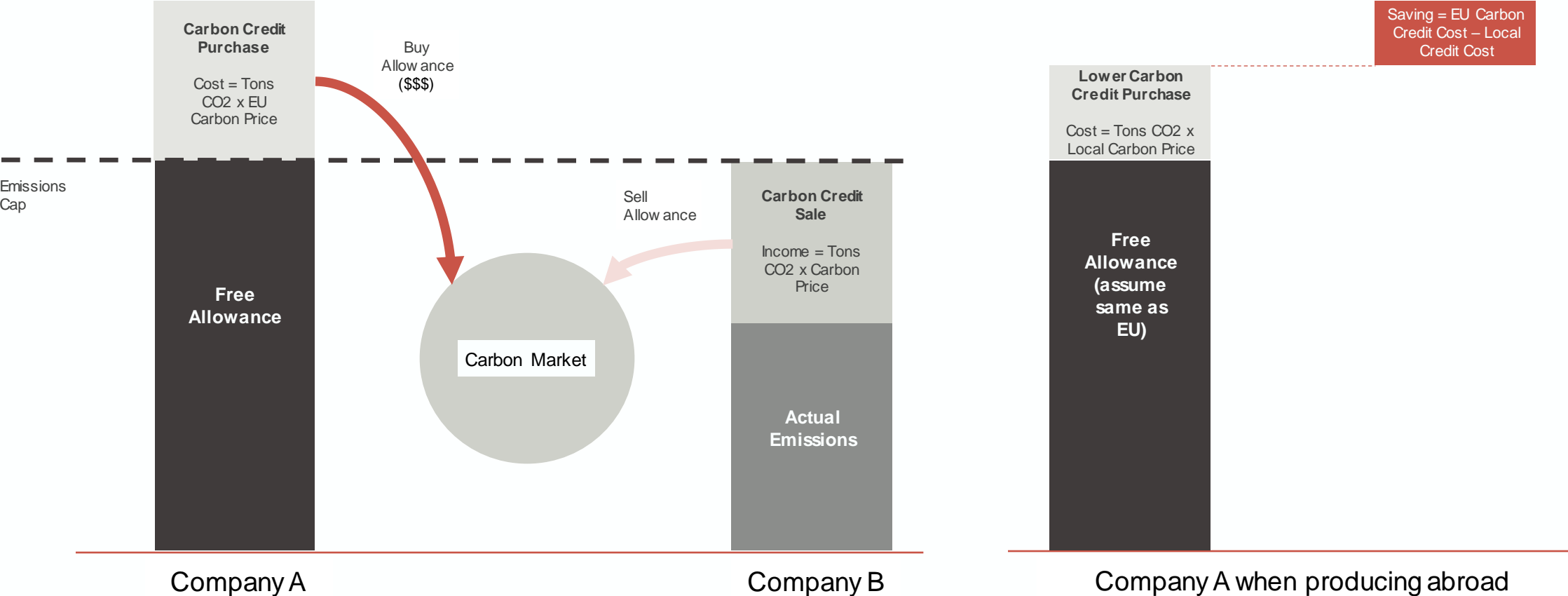


Pre-CBAM, companies emitting higher than their allowance could avoid buying carbon credits by moving production abroad

If company A produces in EU, they must purchase Carbon Credits from the EU Carbon Market for every ton of CO₂ over their allowance

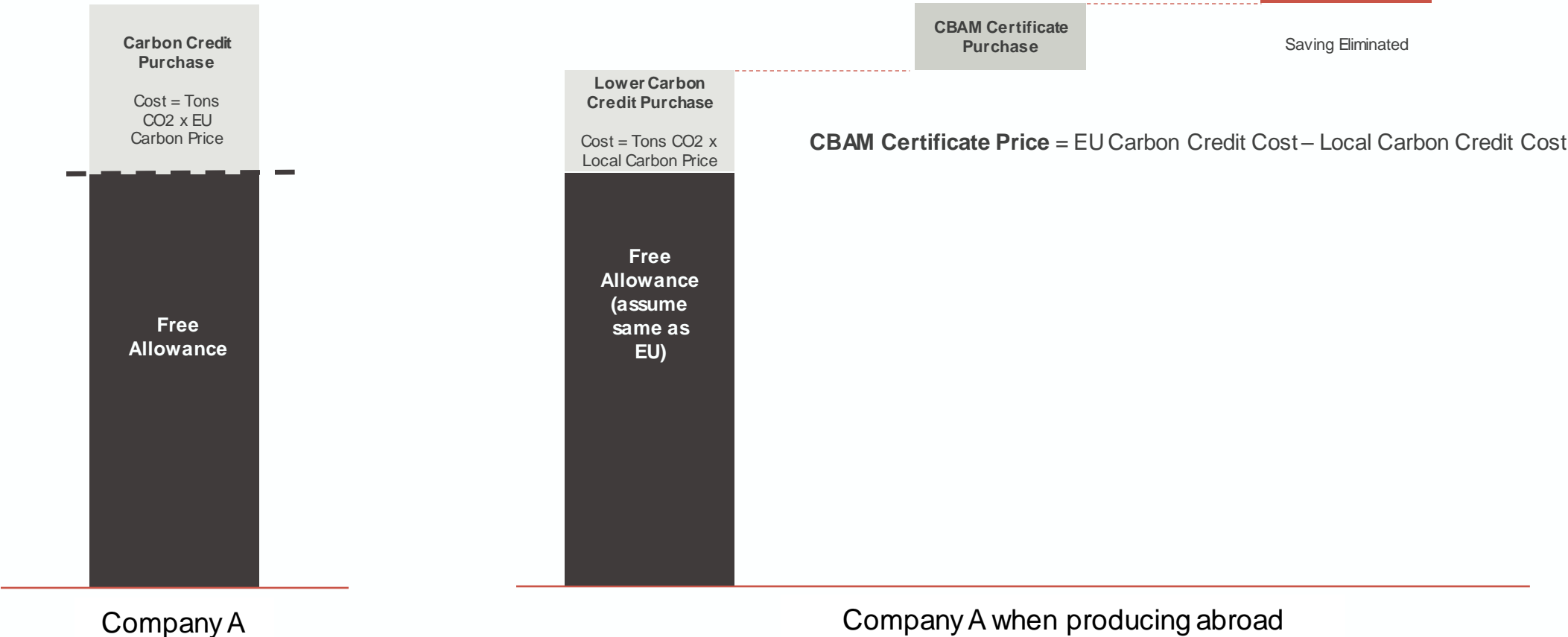


By shifting production to a country with lower/no carbon price, company A can save

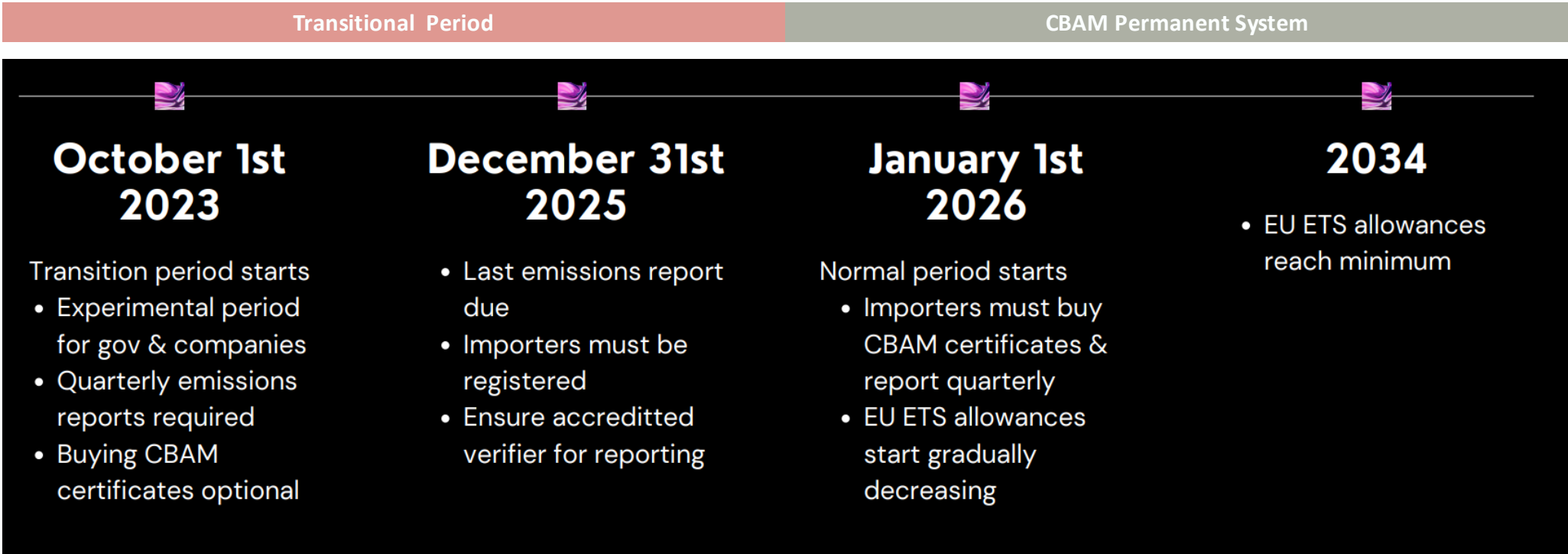


Under CBAM, there is no advantage to producing abroad due to CBAM certificates being purchase on import of goods

If company A produces abroad, they must purchase CBAM Certificates on importing goods back into EU



CBAM will be implemented in phases, with the first starting in January 2024



Companies have two years to get a full picture of product emissions before the law is fully enforceable and external verification of data is required

03 What Needs to be Reported?

Under CBAM, Carbon Data Will Need to be Reported for Six Different Product Categories at First

Cement	Steel	Aluminium	Hydrogen	Fertilizers	Electricity
<ul style="list-style-type: none"> Calcinated Clay Cement Clinker Cement Aluminous Cement 	<ul style="list-style-type: none"> Sintered Ore Pig Iron Ferro-manganese Ferro-chromium Ferro-nickel DRI Crude Steel Iron or Steel products <ul style="list-style-type: none"> - Includes 34 categories of finished and semi-finished goods 	<ul style="list-style-type: none"> Unwrought Aluminium Aluminium products <ul style="list-style-type: none"> - Powders/flakes - Bars, rods and profiles - Wire - Plates, sheets, strips - Foil - Tubes, pipes, fittings - Structures - Tanks, vats, drums - Others 	<ul style="list-style-type: none"> Hydrogen 	<ul style="list-style-type: none"> Nitric Acid Urea Ammonia Mixed Fertilizers <ul style="list-style-type: none"> - Potassium Nitrates - Mineral or Chemical Fertilizers 	<ul style="list-style-type: none"> Electricity Imports

By 2030, the scope is expected to expand to include all industrial sectors, as well as aviation and maritime emissions (both logistics and other voyages)

The EU defines three categories of 'embedded' carbon emissions to be reported under CBAM

Embedded emissions = CO₂ emissions associated with the production of a certain CBAM good

Direct Carbon Emissions

CO₂ directly released by the facility to produce a product (e.g. from coal burned in thermal processes)

Two options to calculate:

- Calculation-based approach: take quantities of fuels burned and multiply by EU-published emission factor (recommended)
- Measurement-based approach: directly measure concentration of greenhouse gases per m³ of flue gas from facility

Indirect Carbon Emissions

Emissions from the production of electricity used in manufacturing the product (e.g. to power machinery)

Three types of electricity covered:

- Grid electricity: can calculate emissions from IEA emission factors
- Energy produced within the installation: use calculation or measurement based approach to find emissions from fuels burned onsite
- Power Purchase Agreements (PPAs): Use reported emissions from electricity generator

Precursor Carbon Emissions

Embedded emissions of certain relevant raw materials/semi-finished goods used in manufacturing the final CBAM good

Two scenarios:

- Produced in the same facility as the CBAM good: calculate its direct and indirect carbon emissions in the same way as the CBAM good, and add to the total.
- Purchased: direct and indirect carbon data must be requested from supplier, as well as information on the quantity and production processes used for manufacture.

Who is involved in the CBAM reporting process?

Importer – Importing company or representative (whoever submits the customs declaration).

➔ Must submit CBAM report on quarterly basis.

Facility Operator – operates a facility manufacturing CBAM goods outside the EU and has direct access to emissions data.

➔ Must monitor carbon emissions and submit data to importer.

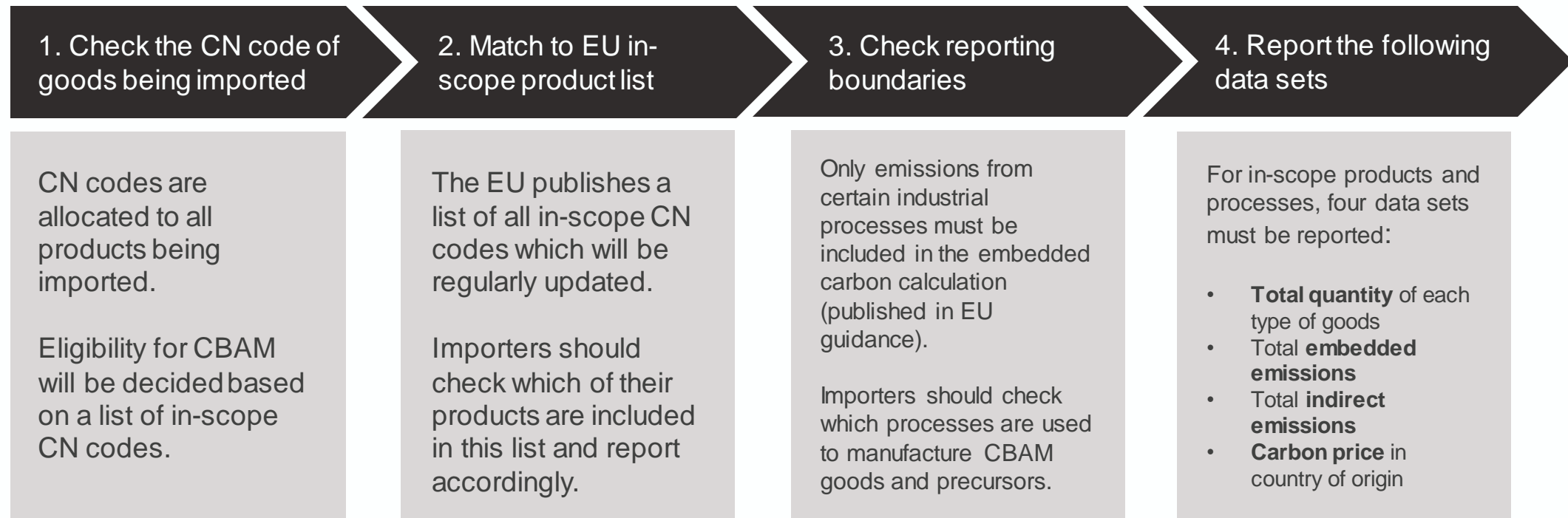
Independent Verifiers – third parties who offer verification and standardization of industrial data

➔ Not required during transitional period, but will be mandatory post-2026.

Customs Authorities – local customs in relevant EU member state

➔ Check CBAM reports and impose penalties for non-compliance.

I am an importer – how do I know which data to report?



What if I can't get the data from my suppliers?

- To allow for the fact that not all data will be easily available, the EU publishes a list of default values, which can be multiplied with the quantity of goods to approximate embedded emissions.
- These can be used to calculate a total of 20% of reported emissions for each report in the transition period.

I operate a production facility – what data should I measure?

Direct Emissions	Embedded emissions of relevant precursors	Indirect Emissions	Carbon Price in Country of Origin
<p>Direct emissions must be counted by either the calculation or measurement method</p> <p>If various products are manufactured in a facility, emissions must be allocated accordingly</p>	<p>“Relevant Precursors” are those which are also CBAM goods.</p> <p>Their direct emissions should be reported as part of the total embedded emissions of the final CBAM good.</p>	<p>Indirect emissions from both grid and self-generated electricity.</p> <p>Again, allocation is needed based on the different CBAM goods produced in the plant.</p> <p>Indirect emissions from relevant precursors must also be included</p>	<p>Carbon price per ton in the country of origin must be communicated.</p> <p>This will not change based on the product, but correct price must be used.</p> <p>Carbon costs incurred by precursor manufacturers included.</p>

How do I find the Carbon Price for the Chinese Market?

- China has both national and local carbon markets in which different companies trade.
- Carbon price to be used still under clarification, but many CBAM goods still not covered at all by market in which case no carbon price would be due.

04 How will the law roll-out?

What are the financial penalties for non-compliance?

Financial penalties may apply where:

- Importer has not taken steps to report their emissions via a CBAM report
- CBAM report is incomplete or incorrect, and importer has not corrected it after feedback from authorities

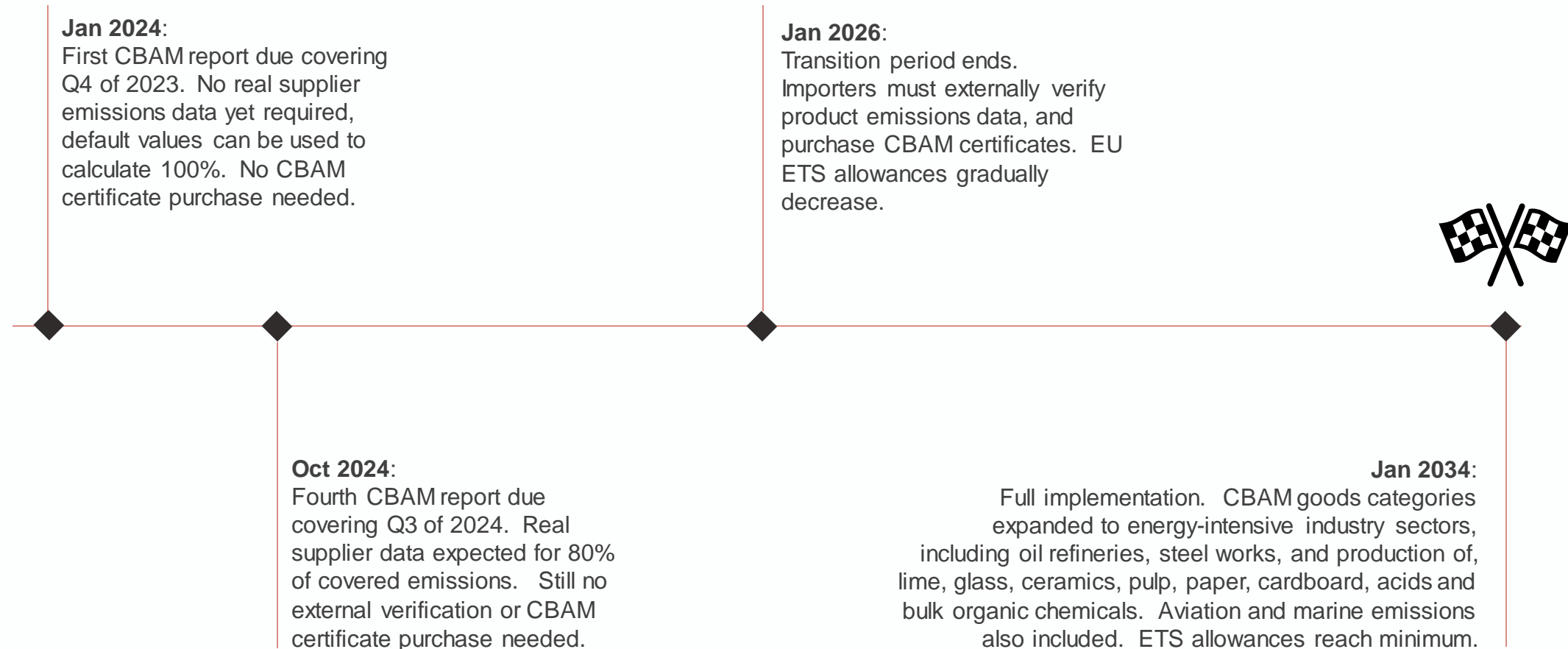
Financial penalties are likely to be between 10 – 50 EUR per tonne of unreported emissions.

For a company importing embedded emissions of 500kt per year (e.g. a mid-sized European multinational), missing 10% of reported emissions, this means a penalty of 2.5 mio EUR.

Note: CBAM reports must be filed for CBAM goods valued at over 150 EUR in a single consignment. E.g. if a single pack of screws is included as spare parts with a non-CBAM piece of equipment, they do not need to be reported.

How will the scope of the law expand in the future?

CBAM is not static, and the requirements will get progressively more stringent with time



05 Recommended Next Steps

During Transition Period, Importers and Facility Operators Should get used to tracking Carbon data in required format

Key objective is to start filing reports, observing and fixing challenges within the reporting process

Importers

1. Fully map your CBAM goods and suppliers on a product-level
2. Assign internal roles and responsibilities for data gathering and train team
3. Test data collection processes with key suppliers during transition period

Facility Operators


1. Understand which CBAM goods/relevant precursors pass through your plant
2. Assess current data availability and put in actions to improve transparency
3. Work with leading customers to streamline data collection and communication

CBAM will require close collaboration with international suppliers/customers. Relationships will be key to successful execution.



Thank-You!

Contact

 +852 2815 1999

 info@resetcarbon.com

RESETCARBON.COM

Commercial in confidence. Not for redistribution.