

IMPLEMENTATION OF THE CARBON BORDER ADJUSTMENT MECHANISM (CBAM) IN THE EUROPEAN UNION



CBAM AT A GLANCE

Carbon leakage

Carbon leakage occurs when companies based in the EU move carbon-intensive production abroad to countries with less stringent climate policies. Imported goods don't reflect this difference in carbon quota, even if they compete with EU companies in the EU market.

Combating leakage with CBAM

To solve the Carbon Leakage issue, the EU established the **Carbon Border Adjustment Mechanism (CBAM)**. This mechanism puts a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU, to encourage cleaner industrial production in non-EU countries.

TIMELINE



Transitional period:

1 October 2023 to 31 December 2025.

Full Implementation:

1 January 2026.

During this period, importers of goods in the scope of the new rules will only have to report greenhouse gas emissions (GHG) embedded in their imports (direct and indirect emissions), without making any financial payments or adjustments.

The agreement foresees that indirect emissions will be covered in the scope after the transitional period for some sectors (cement and fertilisers), on the basis of a methodology to be defined in the meantime.

CONTEXT

With the environmental crisis worsening, policies on greenhouse gas emissions disclosure are changing from voluntary to mandatory. This change is happening across Europe and in markets that do business with Europe, in line with the Green Deal's goal of making Europe climate neutral by 2050. As part of this effort, disclosure requirements will become stricter, including the implementation of the Carbon Border Adjustment Mechanism (CBAM). This crucial policy of the Green Deal will increase scrutiny on offsets and investments.

WHO WILL BE IMPACTED BY THE CBAM

Importers from industries of higher carbon leakage risk such as, Aluminium, Steel, Fertiliser, Cement and Energy. The information on embedded emissions for goods subject to CBAM are to be communicated by non-EU producers. In cases where this information is not available, it will be assumed an embedded carbon footprint equal to the 10% worst performance plants in the industry in the EU.

THE COST OF CBAM

The following costs will be incurred by those subject to the CBAM:

- Increase in carbon costs.
- Monitoring the quantity of imported products.
- Tracking the place of origin.
- Monitoring the embedded GHG emissions of products stemming from the production process.
- Verification of the monitored emissions.
- Cost related to the documentation of the process, including the submission of information to the CBAM registry.
- Costs related to making the payment.
- Costs related to the preparation for controls by the authorities.
- Buying and surrendering of import certificates (CBAM certificates).

Obligation : $\text{Embedded emissions} \times \text{Tonnes product} [\times \text{Carbon price}]$

THE COMPLETE SOLUTION

IT'S TIME TO ACT NOW

CBAM Price is linked to the European Union Allowance (EUAs) which is driven by:

- Stricter Environmental Policies -such as the implementation of the CBAM.
- Changes in Supply and Demand -phase out of free EUAs decrease the supply while the CBAM will increase the demand.
- Price of transition fuels (Coal to Gas).

Today EU companies pay around €80 to emit one ton of CO2 equivalent this is three times more than in 2020, an upwards trend, set to continue.

THE GATEWAY TO REGULATED CARBON MARKETS & REQUIREMENTS

As a provider of carbon financial products and specialist consulting services, EO2 enables companies to best manage the shift to a low-carbon economy. EO2 helps companies pursue a sustainable agenda. With a range of solutions from consultancy services to the trading of certified carbon certificates on the regulated market, EO2 is the certified partner for companies ready to become accountable, responsible, and contribute to emissions reduction efforts, by meeting European requirements and acting as a frontrunner in environmental protection.

Authorised declarant in the EU, registered verifier, and information services around the administration of carbon certificates.



SAVE FOR A GREENER FUTURE

To completely mitigate the price volatility and steady increase of the carbon markets, EO2 tokens, from the Regulated Carbon Project are sold at a price fixed by the European registry. Companies and investors can use these digital assets as a hedging tool, paying less now for a valuable commodity that is only set to increase in price.

ELIMINATE RISK & GREENWASHING

The Regulated Carbon Project's EO2 tokens are a financial instrument that can be used as a compensation tool without the risk of greenwashing. An increasing number of studies and subsequent media coverage shows that up to 85% of credits on the voluntary market don't deliver the value they claim, exposing companies investing in this market to fraud and greenwashing. EO2 credits are free of greenwashing risk because they are regulated and verified by the European central authority. As a result, your reputation is protected, and you meet the requirements of European law.

THE REGULATED CARBON PROJECT

Access

Access to the regulated carbon market, enabling the company to trade and hold ETS Allowances either as an investment, as an hedging instrument or as an offset.

Assessment

- Assessment and Screening of current Carbon accounting techniques to match the EU requirements for the CBAM.
- Assessment of your current ESG initiatives and their alignment with European regulations.

Visibility

- Reports and alerts regarding the changing regulations concerning your industry.
- Sustainability consultancy services.

Administration

Declaration of imported goods to the central CBAM registry and acquisition of CBAM Certificates. (2/2 2023)

