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**MEETING DOCUMENT**

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From: General Secretariat of the Council  
To: Delegations

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Subject: Presentations by the Commission: CBAM - how will it work and its InfoTech architecture

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Delegations will find attached the presentations for the meeting of the AHWP CBAM on 9 December 2021.

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# CARBON BORDER ADJUSTMENT MECHANISM

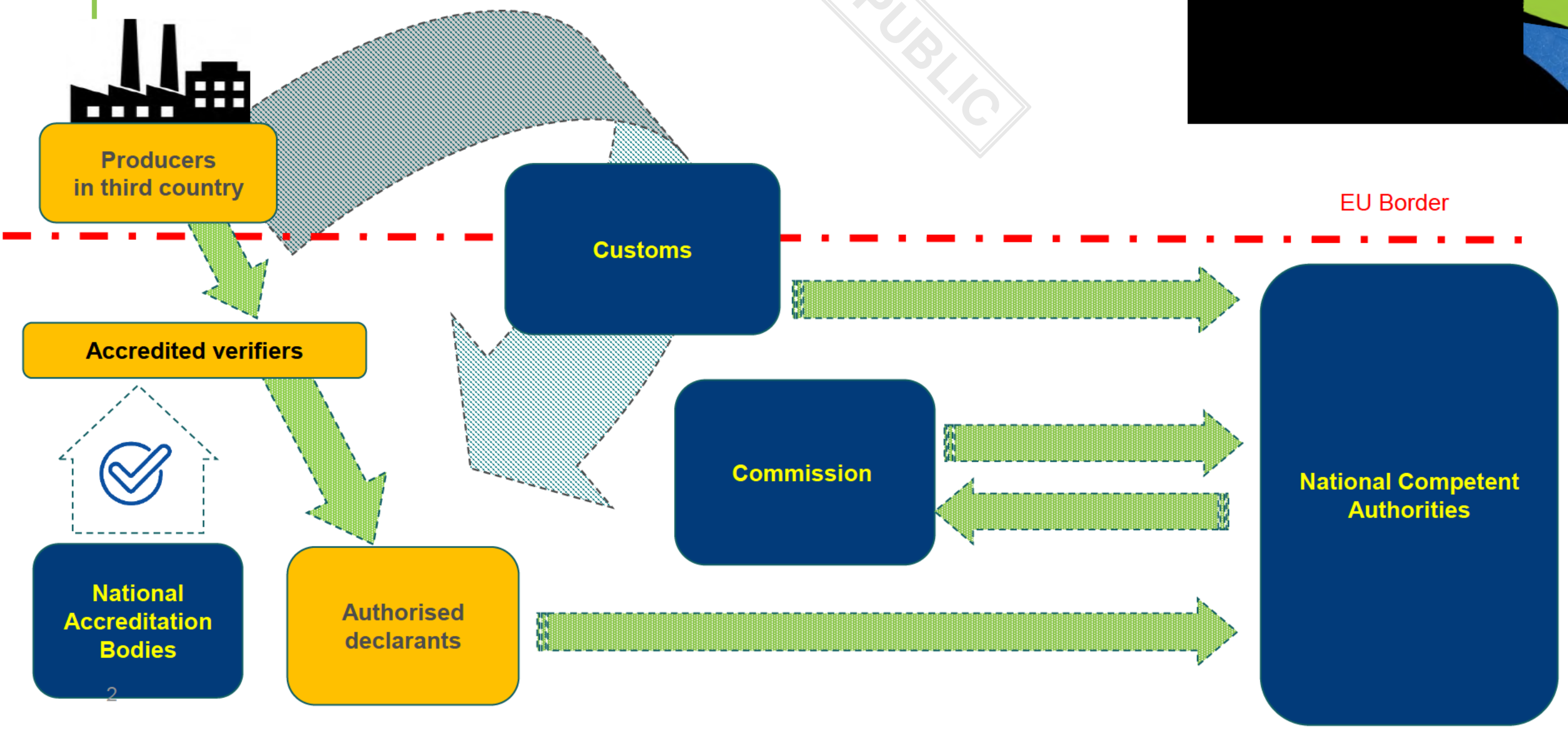
## How will it work?

A new, **green** way of pricing carbon in imports to the EU

*Ad Hoc Working Party 9 December 2021*

# Snapshot of CBAM definitive system

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# Key actors in the CBAM and the EU ETS

	CBAM	EU ETS
Public Authorities	<ul style="list-style-type: none"><li>• Customs authorities in 27 MS</li><li>• Competent authorities in 27 MS</li><li>• EU Commission</li><li>• National accreditation bodies in 27 MS</li></ul>	<ul style="list-style-type: none"><li>• Competent authorities in 27 MS</li><li>• EU Commission</li><li>• National accreditation bodies in 27 MS</li></ul>
Operators, producers and traders	<ul style="list-style-type: none"><li>• Producers in third countries</li><li>• Customs declarants</li><li>• Authorised CBAM declarants</li><li>• Accredited verifiers</li><li>• Independent persons certifying carbon price applicability in country of origin</li></ul>	<ul style="list-style-type: none"><li>• Operators of EU ETS Installations</li><li>• Accredited verifiers</li></ul>

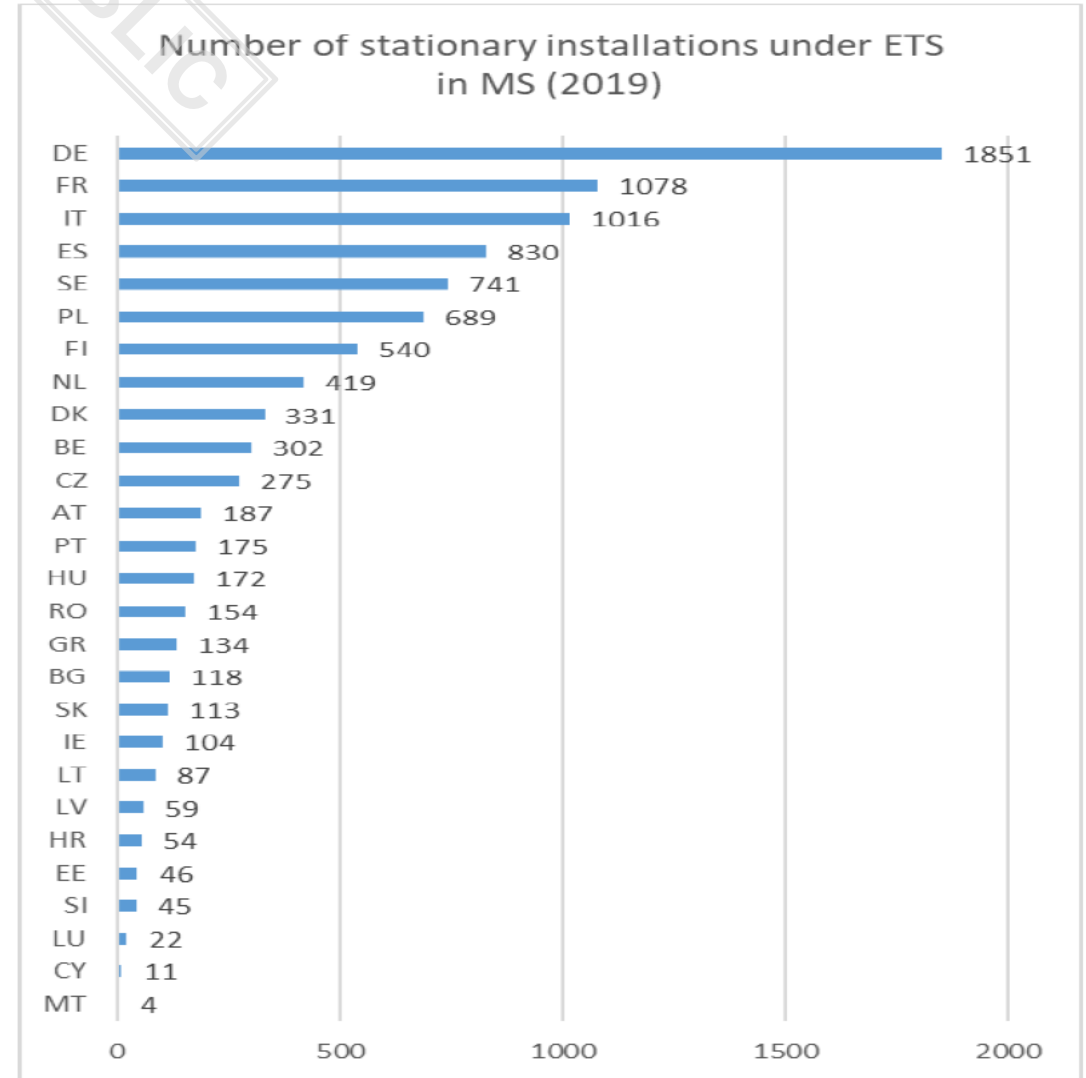
# Snapshot of EU ETS administration – Key data

## General arrangements

- A central Competent Authority in each MS is required to facilitate coordination (central review of the work)
- 18 MS have all tasks managed by one Competent Authority
- 9 MS have systems which involve local and regional authorities.
  - Varying degrees of monitoring, reporting and verification tasks
  - Varying numbers of local and regional authorities involved

## Key figures

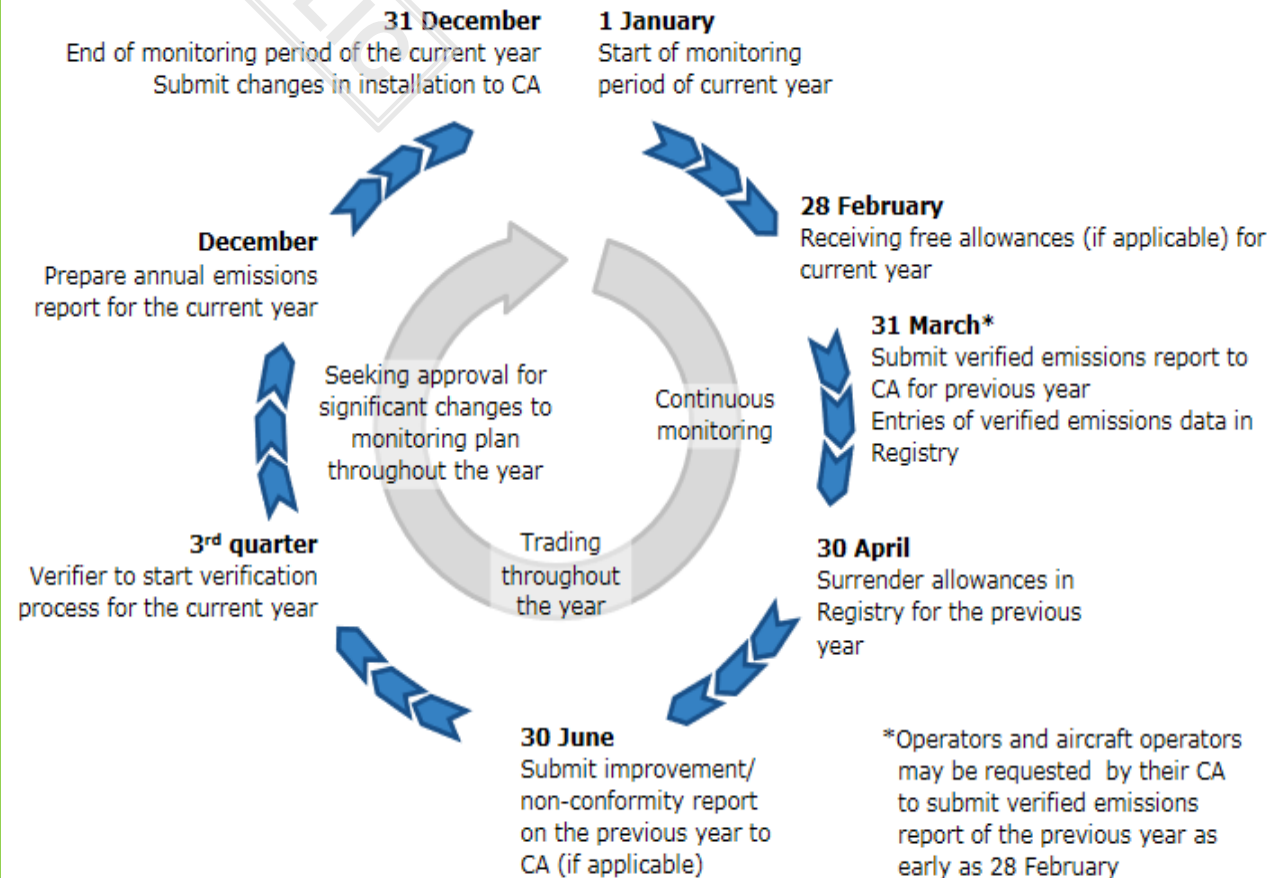
- Resources in Competent Authorities vary depending on the number of installations in the MS
- Approx. 10.000 stationary installations across the EU



# Snapshot of EU ETS administration – Key Tasks of Competent Authorities

## Key tasks of competent authorities

- **Issuing authorisations** to installations under the ETS to operate and emit GHG (reviewing changes where applicable).
- Receive and approve **monitoring plans**
- Receive and review **verified emission reports** from operators by 31 March each year (annual cycle of reporting).
- **Ensure surrender of allowances** and penalties for incompliances
- **Issuing free allocation** to operators by 28 February each year – assessing annual activity level reports and changed levels of free allocation if applicable.
- Contributing in **collection and assessment of data** for the calculation of free allocation and benchmarks by the Commission



# Key functions by actor: Transitional period (1)

Transitional period

Definitive period

## Customs

- Normal customs procedure (i.e. processing customs declaration) ●
- New obligation 1: Communicating to competent authorities of MS key (not new) data on declarant & imported goods ●
- New obligation 2: Inform declarants of their reporting obligation to competent authorities of MS ●

## Competent authorities

- Receive data from national customs to perform key tasks:
  - Check that declarant submits a CBAM report every quarter ●
  - If applicable, impose penalty on failure to submit and managing appeals under national rules ●
  - Communicate info from CBAM reports to COM four times a year ● ●
- Begin handling requests for authorisation by declarants – prep. for the definitive period
- Begin setting up the national registries inclusive of accounts of authorised declarants

- No major change ●
- Somewhat similar to ETS ●

- IA or DA ●

- New task ●

# Key functions by actor: Transitional period (2)

Transitional period

Definitive period

## Commission

- Receives data from competent authorities and use it in analytical work to feed into the review report and in the IA on Art. 7 ●●
  - Technical assistance to MS competent authorities ●
  - If applicable, adopts DA to change Annex II for particular countries or jurisdictions ●●
  - Maintains central database where installations of third countries can voluntarily register ●
- Before start of definitive system ensure that national registries are connected and interchangeable with all competent authorities and COM under an integrated system

• No major change  
• Somewhat similar to ETS ●

• IA or DA ●

• New task ●

# Key functions by actor: Transitional period (3)

Transitional period

Definitive period

## Producer in third countries

- Gives information to customs declarant on embedded direct and indirect emissions and carbon price in country of origin
- Voluntary registers in the COM central database of installations

## Customs declarant

- Files customs declaration (Not new)
- Compiles and submits the CBAM report every quarter to competent authorities

## Authorised declarant

- Before the start of the definitive period to seek authorisation from competent authority in MS of establishment if wish to import goods when CBAM is fully operational

## Accredited verifier

- Before the start of the definitive period to seek accreditation if they wish to work as verifiers when CBAM is fully operational

# Key functions by actor: Definitive period (1)

Transitional period

Definitive period

## Customs

- Normal customs procedure *plus*: Checks authorisation and refuses import if declarant not authorised ●
- Communicate to competent authorities of MS where declarant is authorised key (but not new) data *plus* CBAM account number ●
- Carry out risk-based controls ●

## Competent authorities

- Handle requests for authorisation by declarants ● ●
- Maintain national registries inclusive of accounts of authorised declarants and accredited verifiers ●
- Sell CBAM certificates to declarants authorised in the MS of the competent authority ●
- Receive data from national customs to be used in reviewing of declarations ●
- Review the annual CBAM declarations and surrendering of certificates on a risk basis. ● If applicable:
  - Impose penalty on failure to surrender sufficient number of CBAM certificates ●
  - Adjust number of CBAM certificates to be surrendered ●
  - Manage appeals under national rules ●
  - Reimburse value of any CBAM certificates surrendered in excess ●
- Control sufficient number of CBAM certificates in accounts at end of each quarter during year of import (80%-rule) ●
- Re-purchase excess of CBAM certificates remaining in account after annual surrendering ●
- Cancel CBAM certificates remaining in account ●

- No major change ●
- Somewhat similar to ETS ●

- IA or DA ●

- New task ●

# Key functions by actor: Definitive period (2)

Transitional period

Definitive period

## Commission

- Ensures coordination of national registries inclusive of accounts of authorised declarants and accredited verifiers ●
- Acts as central administrator maintaining independent transaction log of CBAM certificates ●
  - Carries out risk-based controls on transactions
  - Informs MS of irregularities for further investigation
- Calculates weekly price of CBAM certificates and publish it on its website ●
- Takes action to address practices of circumvention ●
- Technical assistance to MS competent authorities to perform tasks and coordination ●
- Maintains central database where installations of third countries can voluntarily register ●
- If applicable, adopts DA to change Annex II for particular countries or jurisdictions ●

- |                           |   |
|---------------------------|---|
| • No major change         | ● |
| • Somewhat similar to ETS | ● |
| • IA or DA                | ● |
| • New task                | ● |

## EU national accreditation bodies

- Accredite CBAM verifiers, in addition to verifiers already accredited pursuant to EU ETS Regulation ● ●

# Key functions by actor: Definitive period (3)

Transitional period

Definitive period

- **Producer in third countries**
  - Voluntary registers in the COM central database of installations
  - Gives information to the authorised declarant on embedded direct emissions and payment of carbon price in country of origin
- **Customs declarant = authorised declarant**
  - Requests authorisation as CBAM declarant in order to be able to import CBAM goods ●
  - Files customs declaration
  - Submits a CBAM declaration annually (by 31 May)
    - Ensures that embedded emissions declared are verified by an accredited verifier ●
    - Keeps records of information required to calculate and verify embedded emissions, as well as the verifier's report
    - Keeps proof of actual payment of carbon price in country of origin ●
  - Buys CBAM certificates
  - Surrenders number of CBAM certificates corresponding to declared embedded emissions by 31 May
  - Ensures sufficient CBAM certificates on its account (80%-rule)
  - If applicable, requests re-purchase of excess of CBAM certificates

# Key functions by actor: Definitive period (4)

Transitional period

Definitive period

- **Accredited verifier**
  - Being either accredited under EU ETS Regulation or requests accreditation as CBAM verifier ●
  - Verifies embedded emissions calculated in accordance with Regulation and IA ●
- **Independent person certifying carbon price applicability in country of origin**
  - Demonstrates that declared embedded emissions were subject to carbon price in country of origin ●

# Key points under decentralised system – definitive (1)

Transitional period

Definitive period

- **Customs**

- No difference except direction of the flow of information

- **Competent authorities**

- Sufficient know-how exists to fulfil necessary functions in an efficient and secure way
- Receives basic customs info to be used in reviewing declarations

- **National Accreditation Bodies**

- No difference

- No major additional resources needed
- Automatic IT systems to support flow of information

- EU ETS competent national authorities already have:
- Technical competence to assess declared embedded emissions in CBAM goods
  - Administrative and financial competence to authorise declarants and to monitor/control transactions

# Key points under decentralised system – definitive (2)

Transitional period

Definitive period

## Competent authorities

- **Requiring human resources**

- Handle requests for authorisation by declarants
- Review the annual CBAM declarations on a risk basis
- Impose penalties if applicable

COM

- Takes action to address practices of circumvention, notably by adopting DA
- If applicable, adopts DA to change Annex II

- **Can be largely automatized**

- National registry of declarants, incl. accounts for authorised declarants
- Selling CBAM certificates to authorised declarants
- Control number of CBAM certificates in accounts (80%-rule)
- Re-purchase excess of CBAM certificates remaining in account
- Cancel CBAM certificates remaining in account

COM

- Calculate weekly price of CBAM certificates and publish it on its website
- Maintains central database where installations of third countries can register

- Technical competence
- Administrative competence
- Power to impose penalties/recovery of unpaid amounts

# How to ensure efficiency?

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- Make best use of available resources
- Make best use of existing processes and systems

- National climate authorities already in place for EU ETS

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# Thank you



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# CARBON BORDER ADJUSTMENT MECHANISM

## How will it work?

A new, **green** way of pricing carbon in imports to the EU  
The IT Architecture

*Ad Hoc Working Party 9 December 2021*

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# Thank you



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