



May 2024

## **CBAM IMPLEMENTATION – A BUSINESSEUROPE SURVEY**

### **LESSONS LEARNED FROM THE 1ST REPORTING PERIOD AND RECOMMENDATIONS GOING FORWARD**

The Carbon Border Adjustment Mechanism (CBAM) entered into application in its transition phase on 1 October 2023. This phase, ending in December 2025, will help authorities and economic operators gain experience with the system as well as identify potential problems and ways to improve the measure and its implementation. A successful implementation of CBAM is crucial to achieve its objectives of levelling the playing field, fighting carbon leakage and helping European industry to continue to decarbonise.

In this context and following the end of the first reporting period, BusinessEurope has conducted a survey with its member federations, corporate members from the Advisory and Support Group (ASG) and some sector associations. The aim was to gather information on the challenges faced by economic operators in view of proposing potential changes to the system. The survey focused mainly on the impact of the reporting obligations under CBAM. Other important issues such as the effectiveness of CBAM in tackling carbon leakage, the export compensation issue, and the risk of circumvention will be monitored by BusinessEurope and dealt with separately.

We received 180 replies, around 90% of which is input from companies. The geographical coverage is quite broad, given that we received responses from 15 different European countries. The challenges and trends across these countries are similar. The majority (93%) of respondents were importers of CBAM goods into the EU, some of which had a dual role as manufacturer and importer.

#### **SUMMARY OF KEY FINDINGS:**

- 1. Challenges collecting actual emissions data.** Around 12% of companies managed to submit actual emissions data. However, 80% of the respondents that submitted a CBAM report, submitted data based on the default values published by the Commission. Moreover, companies reported that the biggest challenge of CBAM is collecting actual emissions data from suppliers/producers in third countries. Many of them do not understand the instructions, are not able to calculate the embedded emissions, or do not see any financial incentive in collecting the data given the often disproportionately high costs. This was especially reported for low value shipments or for goods with very low embedded emissions. The possibilities to collect the data vary depending on reported factors such as the size of the supplier, their export dependence on the European market, the size and value of the shipment as well as the number of intermediaries between the supplier and the manufacturer.



2. **Not allowing the use of default values after July 2024 will be difficult to meet.** Almost half of the respondents cannot yet foresee when they will be able to submit the actual emissions data. Many of those consider they will not be able to submit real emissions data before the end of the transition period. This is mainly explained by uncertainties regarding suppliers' abilities or willingness to provide reliable data. Most of the companies are in contact with their suppliers, trying to make estimations on when they will be able to submit the data.
3. **Technical challenges.** Companies faced numerous technical problems when submitting the CBAM reports, and a large number of companies reported that the system should be made more user-friendly. Companies faced difficulties using the Trade Portal, including numerous error messages, registration and log-in problems, and issues with saving drafts. They also struggled filling the forms, e.g. understanding which data was mandatory or filling in the low emissions items and raised the complexity of the Excel file. These issues are reported to be exacerbated for SMEs with little to no experience with carbon reporting.
4. **Complex exercise and lack of support.** Companies also reported a lack of support, trainings and clear instructions from their national authorities as well as lack of helpful and timely guidance from the Commission. The complexity of the reporting exercise was overall found to be burdensome and time consuming. The absence of a solution for the automatic upload of data to the trade portal, as well as company groups not being able to file consolidated reports, is mentioned to contribute to the burden.
5. **The “de minimis” threshold exacerbates the challenges.** A large number of companies consider that the minimum threshold of 150 EUR above which CBAM applies leads to disproportionate burdensome requirements, especially for imported products with very low embedded emissions but falling above the threshold. In such cases, the increased administrative costs of CBAM are reported to be disproportionate in relation to the climate impact of the shipment and the CBAM fees to be paid being considerably lower than the cost of reporting.
6. **Expected impacts on supply chains.** While most companies are still analysing the impacts of CBAM, over 60 % of respondents expect that CBAM will potentially lead to changes in their supply chains or business models. Many companies reported that they will increasingly select suppliers based on their ability to provide emissions data. Several companies also reported that they expect additional business costs from data collection, reporting requirements, changing suppliers, and increased prices, which could ultimately affect their competitiveness. Some companies would also opt for EU suppliers instead of importing. Some also reported risks of supply chain disruptions. For instance, for some “niche” products (e.g. specialised bolt and screws), it is difficult to find suppliers in the EU.
7. **Circumvention risks.** The risk of circumvention and fraud is a high concern for many companies. This issue has not been the main focus of the survey, given that CBAM is in its early stages of implementation. However, it is crucial to



continuously monitor the risk of circumvention as well as the broader impact of CBAM in tackling carbon leakage.

## KEY RECOMMENDATIONS

Based on the reported challenges and proposals by respondents, BusinessEurope makes the following recommendations to the Commission and the CBAM National Competent Authorities to improve the process of reporting under CBAM:

- To enhance suppliers' preparedness to provide relevant data, the Commission should make stronger efforts to raise awareness on the CBAM requirements in third countries and translate templates and guidance to more third country languages.
- Extend the deadline to use default values until the end of 2024 at least. Allow the use of default values during the entire transition period for low value imports.
- Ensure more support and technical assistance to companies, for instance through manuals on how to use the trade portals or guidelines on emission calculations and using the Excel file that are less complex and easier to understand. Organise additional trainings on how to use templates and perform calculations.
- Ensure more awareness raising and trainings tailored to SMEs. Encourage proactive outreach by customs authorities to SMEs as well as customs brokers.
- Make the CBAM trade portals more user friendly and address the technical challenges outlined above and in Annex.
- In conjunction with the future revision of the CBAM Regulation, the "de minimis" threshold should be raised from the current 150 EUR.
- Explore synergies with other EU legislations requiring company level calculations and disclosure of scope 3 GHG emissions, such as the Corporate Sustainability Reporting Directive and the EU Taxonomy. Compile and disseminate best practices building on the implementation of such frameworks.



## **ANNEX: More detailed analysis of the results**

### **QUESTION 1: What is your role? E.g. importer, manufacturer.**

- The vast majority (93%) of the respondents to the questionnaire are importers of CBAM goods. Some of these were both importers and manufacturers of CBAM goods.

### **QUESTION 2: Which type of technical challenges did you/your company face when submitting the first CBAM report? E.g. technical issues linked to the EU Trade Portal (such as registration problems or issues with the submission)**

- Difficulties using the Trade Portal, including numerous error messages requiring a restart of the submission, registration and log-in problems, issues with saving drafts, unable to report on low weights and indirect emissions. It was also unclear to some companies where to submit data, and several found the trade portals to not be user-friendly.
- Issues filling the forms, e.g. being unable to use the excel file or fill in the low emissions items.
- Lack of appropriate translations of both the trade portals and the manual and guidelines.
- Difficult to understand the published CBAM documents, especially the highly complex Excel file. This requires deep knowledge of monitoring and reporting practices in an emission trading context, which not least smaller companies may not have. Many also consider the guidelines to be very complex and difficult to understand.
- Lack of support and technical assistance from national authorities as well as helpful and timely guidance from the Commission relating to the reporting. For instance, it was unclear for some companies which fields were mandatory, as well as how to calculate emissions. Companies also raised the lack of manuals on how to use the portal, lack of trainings as well as lack of outreach to small companies with little or no experience in carbon reporting. Discrepancies in guidance by national authorities and the lack of authorities in certain member states was also mentioned as concerning.

### **QUESTION 3: Did you/your company face difficulties when understanding/using the commodity codes and collecting data?**

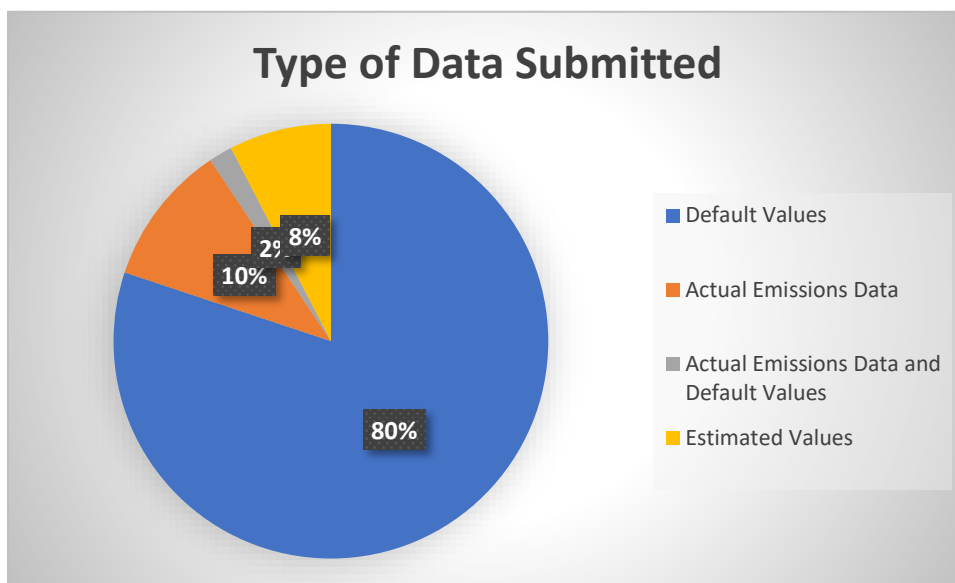
- A large number of the respondents had problems understanding exactly what data was required and what not. Even if they used default values, it was still unclear what other data was required to enter in the Excel. Others say that the Excel sheet provided by the Commission requires a lot of information and it took quite a while to understand all requests, and thereafter explain this to the supplier.
- Many reported issues with customs classification (e.g. difficult to find an accurate product code or description for their products; the length of the commodity codes differs as e.g. some suppliers use 10-digit commodity codes or HSN codes as



compared to 8-digit code in CBAM), which made the process quite time-consuming. Other say that they encountered a few discrepancies in the custom code classification, for instance the manufacturer using a code that does not fall under the CBAM code vs their assessment. This required the involvement of the customs office to issue a binding ruling for the certified classification.

- Several companies, especially large ones importing a variety of CBAM goods, reported that identifying the various CBAM goods that are imported by the different parts of their company is challenging and adds a lot of bureaucracy.
- Several companies reported that one of the biggest challenges of the CBAM is collecting emissions data from suppliers/producers in third countries. This is a concern also expressed in other parts of the questionnaire.

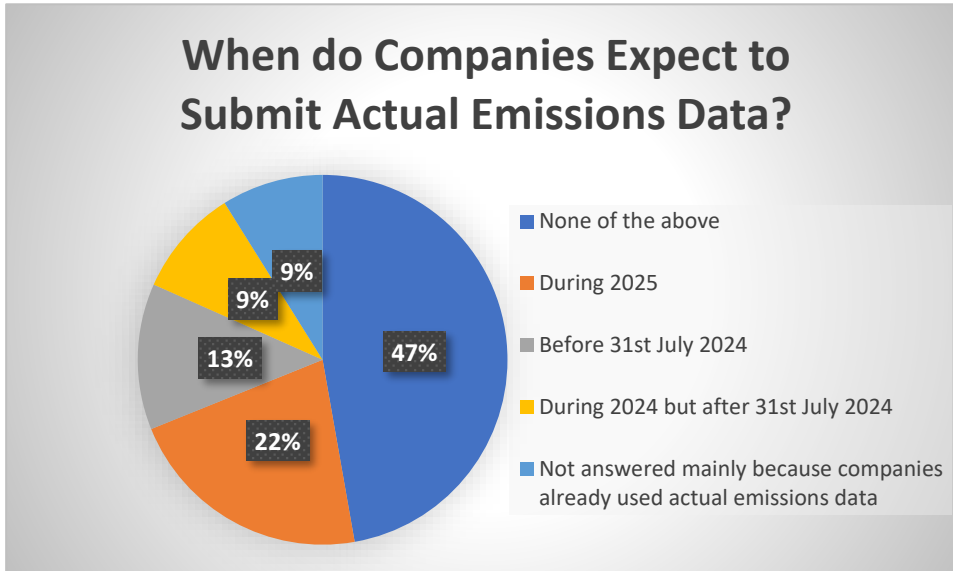
**QUESTION 4: Which type of data on embedded emissions did you submit?**



- 80% of respondents that submitted a CBAM report, submitted data based on the default values published by the Commission. Moreover, they reported that the **biggest challenge of the CBAM is collecting emissions data from suppliers/producers in third countries**, many of which do not understand the instructions and are not able to calculate the embedded emissions. This problem is exacerbated when companies deal with small suppliers.

This graph includes only the respondents that submitted data i.e. 171 from the 180 total responses.

**QUESTION 5: If your company used default values, when do you expect to be able to submit actual emissions data?**



- Almost half responded “none of the above” meaning that they either cannot foresee when they will be able to submit the actual emissions data, or they do not foresee being able to submit actual emissions data before the end of the transition period. This is mainly due to uncertainties regarding suppliers’ abilities or willingness to provide reliable data. In particular for low value imports with low embedded emissions (e.g. CN code 7318 – e.g. screws, bolts, etc. -), some suppliers are not willing to provide emissions data since the cost of collecting the data is disproportionately high as compared to the value of the shipment.
- Around 22% of companies estimate to be able to submit actual emissions data during 2024, but approximately half of those foresee that this would be after the deadline in July 2024. Another 22% estimate to provide the data in 2025.

**QUESTION 6: Did you face other problems? Please elaborate**

- In addition to the various technical problems, a common and recurrent issue relates to the difficulties in gathering data from suppliers or producers in third countries. Many of the suppliers do not understand the instructions, are not able to calculate the embedded emissions, or do not see any financial incentive in collecting the data given the often disproportionately high costs (especially for low value shipments or for goods with very low embedded emissions). The possibilities to collect the data vary depending on factors such as the size of the supplier, their export dependence on the European market, the size and value of the shipment as well as the number of intermediaries between the supplier and the manufacturer.
- Companies have also reported the following challenges and issues:
  - CBAM authorities being unresponsive to questions and enquiries, and lack of a helpline or single point of contact for enquiries.



- Divergence between different CBAM authorities in their interpretation of CBAM.
- Suppliers struggle to understand and fill in the template provided by the Commission, impacting the quality of the data received from the supplier. The calculation of emissions data requires expertise from various functions in the supplier, who are not yet sufficiently aware of CBAM.
- Complex to report on indirect emissions, in particular if the supplier is not a producer of the CBAM good but transform and sells products made by the CBAM good. It is unclear if the indirect emissions of the supplier or the producer should be reported, and how to manage the reporting in case of several intermediaries between the supplier and the producer.
- In some cases, commercially sensitive information has to be reported. For example, for CBAM goods that are exported and re-imported back in the EU, the carbon price paid when producing the good should be submitted in order to subtract it from the CBAM charge.
- Risk of circumvention for instance as regards remelted industrial scrap or caused by imprecise coding system and use of non-CBAM codes.

**QUESTION 7: Are you expecting an impact on your supply chain or business model?**

The responses to this question have been summarised in paragraph 7 above.

**QUESTION 8: Do you have any suggestions to improve the process?**

Besides the above recommendations to the Commission and the CBAM National Competent Authorities, some companies also proposed to establish a system-to-system connection allowing the automatic upload of CBAM data via a data set (e.g. Excel, CSV) directly into the trade portal. This would simplify the reporting compared to manual submission of data, and in particular ease the burden on company groups that need to submit several reports.