

## European Parliament Approves CBAM, ETS Revision and Deforestation Rules

April 19, 2023

Reading Time : **2 min**

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With 487 votes in favor to 81 against and 75 abstentions, the European Parliament voted yesterday to adopt a regulation on a Carbon Border Adjustment Mechanism (CBAM). Negotiators for the Parliament and the Council of the European Union (EU) had reached a provisional political agreement on the text of the regulation in mid-December, and this vote reflects that agreement without amendment.

The next step in the legislative process is formal adoption of the regulation by the EU member states in the Council. The Council is expected to vote in favor of the regulation in the coming days or weeks. Once adopted by the Council, the regulation will be published in the *Official Journal of the EU* and will come into force 20 days after publication. The CBAM regulation will become law. The CBAM will start as a reporting obligation during a transitional period starting on October 1, 2023. Beginning in 2026, financial adjustments on imports of iron, steel, cement, aluminum, fertilizers, electricity and hydrogen will be phased in over a nine-year period.

Once these financial charges kick in in 2026, the European Commission will have oversight role in respect of the CBAM declarations. The Commission will have wide authority to review and collect evidence for this examination, including an audit at the premises of the CBAM declarant. If no CBAM certificate is submitted, or a declaration is submitted incorrectly, the Commission could provide preliminary calculations to the competent authority of the relevant member state, which conducts the definitive calculations. If an importer fails to surrender CBAM certificates that corresponds to the embedded emissions, it would be subject to a penalty that is equal to the excess emissions penalty under the EU Emissions Trading System (ETS), which is currently roughly 110 euros for each ton of excess emissions.

In addition to CBAM, Parliament is advancing other parts of the EU climate agenda. Parliament voted yesterday to approve revisions to the EU ETS. Under the new system, maritime transport is included in the EU ETS, and the aviation ETS is expanded to cover extra-European Economic Area (EEA) flights. In addition, a separate ETS will be created for fuel distribution for road transport and buildings. Today, Parliament approved a proposal for a regulation on deforestation-free supply chains. The regulation will require companies to conduct strict due diligence if they export from or import to the EU market certain goods considered to contribute to deforestation, i.e. palm oil, cattle, soy, coffee, cocoa, timber and rubber, as well as derived products. Like CBAM, the revised EU ETS rules and the deforestation regulation are expected to become law following adoption by the Council in the coming days or weeks.

## Categories



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