Upcoming carbon legislation affecting supply chain management
Introduction to the Carbon Border Adjustment Mechanism

In line with global carbon goals as well as newly updated carbon commitments by the EU* and UN, carbon legislation will be introduced over the coming years that will shape business' processes and global supply chain management. It's no secret that sustainability is beginning to carry a heavier weight for all companies, and now importers and exporters will need to have a keen awareness of new EU legislations around carbon with compliance practices and taxes being implemented in order to reach both EU and global climate goals.

Irish and EU businesses will be subject to new legislation as a member of the European Union. This includes the Carbon Border Adjustment Mechanism, which is set to be introduced from 1st January, 2023.

What is the Carbon Border Adjustment Mechanism?

In short, the CBAM is a climate measure aimed at minimising the risk of carbon leakage whilst supporting the EU's climate mitigation ambitions and ensuring compatibility with World Trade Organisation standards via a levy on specific imported goods into the European Union. The new format will effectively put a tangible price on carbon in the supply chain, requiring EU importers to buy carbon certificates for the imported goods corresponding to the carbon price that would have been paid had the goods been produced under the EU's carbon pricing rules. This new system will place sustainability at the forefront from a corporate balance sheet perspective as much as an environmental one.

The CBAM system will work as follows:

- EU importers will buy carbon certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's carbon pricing rules.
- Once a non-EU producer can show that they have already paid a price for the carbon used in the production of the imported goods in a third country, the corresponding cost can be fully deducted for the EU importer.

- The CBAM will help reduce the risk of carbon leakage by encouraging producers in non-EU countries to review and 'greenify' their production processes.
- Ensuring importers pay the same carbon price as domestic producers under the EU Emissions Trading System (ETS)
- CBAM will ensure equal treatment for products made in the EU and imports from elsewhere and avoid carbon leakage.

Other key features include:

- A faster move away from free emission allowances for goods covered under CBAM in addition to including shipping emissions in the EU Emission Trading System
- All aircraft and vessels must have access to a clean electricity supply in major ocean ports and airports as part of the Alternative Fuels Infrastructure Regulation
- There will be an introduction of an upper limit on the greenhouse gas content of energy used by vessels calling at ports in the European Union

Consumers in the EU, when purchasing products imported from 'third countries', should be able to do so in the full knowledge that they were produced to the highest environmental standards.

When will CBAM be implemented and what goods are affected?

It is envisaged the CBAM will apply from 1st January 2023, with a transitional period until the end of 2026, and the EU Parliament believes it must be fully implemented by 2032 for selected sectors in the first phase. In addition to the products proposed by the Commission to be included in the first phase (iron and steel, refineries, cement, organic basic chemicals and fertilisers), Parliament wants CBAM to also cover organic chemicals, plastics, hydrogen and ammonia. To ensure a smooth implementation, organic chemicals and polymers will be subject to a commission assessment of their technical specificities. EU MEPs are also looking to extend CBAM to include indirect emissions, i.e., emissions deriving from the electricity used by manufacturers, to better reflect CO2 costs for European industry.

What actions do businesses need to take in relation to CBAM?

The potential impact of CBAM is wide reaching for businesses, with an array of factors to be taken into account:

- Operational impact: Businesses must review operational factors such as customs and logistical data to establish if the Carbon Border Adjustment Mechanism is applicable
- Exposure: Businesses must calculate potential impact of CBAM costs and strategic supply chain flow
- Assess global footprint relating to the EU region and the anticipated CBAM.
- Evaluate any EU Emissions Trading System implications in order to determine sourcing strategies or any necessary adjustments to manufacturing in order to reduce emissions in production

*How does CBAM fit into the EU's sustainability goals?

An overarching 'package' of legislative changes called 'Fit for 55' was proposed in 2021 with the aim to achieve overall carbon neutrality by 2050 and a minimum 55% reduction in GHG emissions by 2030, with the Carbon Border Adjustment Mechanism (CBAM) being just one of the proposals within the package that plays a key role in the future of supply chain sustainability being overseen by the European Parliament and Council of the EU. Designed in compliance with World Trade Organization (WTO) rules and other international obligations of the EU, the CBAM focuses on the need to reduce global carbon emissions by incentivising non-EU countries to reduce their emissions and to prevent the risk of carbon leakage, i.e. production being moved outside the EU to countries with more relaxed climate policies.

Customs authorities across the world will ultimately play a vital role in monitoring and recording the data sets required to allow us to purchase and trade in products that are produced to the highest environmental standards. The 'green customs' revolution, and the legislation that underpins these new rules, will allow us to think local but act global when sourcing and purchasing the products we import in the future.

Summary

The future of product sourcing in a globally interconnected supply chain is changing. From geo-political risk to climate change obligations, manufacturers, importers and exporters must reassess their existing supply chain models. Customs authorities and systems will be at the forefront of ensuring you are compliant and businesses must be proactive to ensure that their supply chains are taking active measures in becoming more carbon-friendly.

If you would like any further information please contact Woodland Group at greenteam@woodlandgroup.com

You can also sign up to our sustainable supply chain newsfeed here.

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