



Implications of the EU's Carbon Border Adjustment Mechanism for Asia

Progressive or Protectionist?

Implementation has begun on the European Union's Carbon Border Adjustment Mechanism ("CBAM"), a key element of the EU's Green Deal. This policy tool is designed to address the risk of carbon leakage as the EU phases out free allowances under its Emissions Trading System ("ETS").¹ With new burdens being imposed on exports to the EU, understanding the CBAM and what it means for businesses operating in Asia is critical for success.

About EU CBAM

Carbon leakage occurs when companies transfer production to jurisdictions with less stringent climate policies to avoid increased carbon costs, undermining global emission reduction efforts.²

CBAM introduces a border levy on certain goods entering the EU that have high levels of embedded carbon emissions or are deemed at high risk of carbon leakage. The levy, issued through the purchasing of CBAM certificates, aims to create a level playing field for EU producers by ensuring the price of imports is equivalent to the carbon price under the EU ETS.³

The EU is the first jurisdiction to introduce a CBAM, with others in the pipeline. The United States has stated an intention to develop its own CBAM;⁴ Canada⁵ and the United Kingdom⁶ have undertaken public consultations on such mechanisms, and it is an approach Australia is also considering.⁷

A CBAM is an attractive policy tool, aligned to current U.S. and EU trade policy which is arguably focused on encouraging domestic industries. Essentially

operating as a tariff on carbon-intensive products, the CBAM serves several policy purposes, including promoting the decarbonisation of international trade and making domestic products more competitive. It is also estimated that the CBAM will generate USD9 billion per year for EU decarbonisation initiatives.⁸

Basic Principles of CBAM:⁹

1. EU importers of goods covered by CBAM must buy CBAM certificates from national authorities, with prices linked to weekly ETS allowances.
2. Importers must declare the emissions embedded in their products and surrender the corresponding certificates each year.
3. If importers can prove that a carbon price has already been paid in the country of origin, the corresponding amount can be deducted.
4. Reporting is quarterly in 2024 and 2025 and will be annually from 2026 onwards.

The first phase of CBAM implementation will initially target specific industries with high carbon emissions, including:¹⁰

- **Aluminum**
- **Cement**
- **Electricity**
- **Fertilisers**
- **Hydrogen**
- **Iron and Steel**

Implementation timeline

- **Q4 2024:** European Commission report on including downstream products into CBAM scope.
- **Q4 2025:** European Commission report on expanding scope to include embedded indirect and transport emissions, as well as expand to other sectors.
- **Present – 31 December 2025:** Transitional phase with quarterly reporting obligation.
- **1 January 2026 – onwards:** Full implementation of CBAM, including annual reporting obligation.

Implications

While the Asian Development Bank estimates that the CBAM will have only a limited impact on global emissions,¹¹ it is expected to significantly affect developing countries in the Asia Pacific region, which rely more on carbon-intensive inputs compared to their peers. Over time, the CBAM will broaden to include industries covered by the ETS¹² as the EU strengthens its climate policies. For example, palm oil, one of Asia's key exports, is particularly at risk from the CBAM, as the EU has identified it as a contributor to deforestation and forest and land fires.¹³

In February 2024, Indonesia's Finance Minister Sri Mulyani Indrawati suggested that members of the Global South could not compete on a "level playing field" with developed countries in both carbon pricing and stimulating investment in green energy.¹⁴

Indonesia plans to introduce both carbon pricing and a carbon exchange market.¹⁵ The successful implementation of these measures will be important to ensuring that exports remain competitive. However, the regulatory changes needed in some markets to adapt to this new trade framework are

likely to be complex and challenging.

With potential for the CBAM to stimulate policy changes by Asian governments, opportunities may be created for industries to showcase solutions which drive decarbonisation and clean energy. Additionally, it allows companies to better understand and mitigate the environmental impact of their supply chains.

For companies in Asia exporting goods to the EU, CBAM presents the following key challenges:

1. **Cost Implications:** Companies will face additional costs as they will need to purchase CBAM certificates to cover the carbon emissions of their products. This will impact competitiveness, especially for industries with high carbon footprints.
2. **Supply Chain Adjustments:** Businesses may need to re-evaluate their supply chains to minimise high carbon inputs and reduce the number of CBAM certificates required accordingly. This might involve investing in cleaner technologies or sourcing materials from regions with lower carbon footprints.
3. **Compliance and Reporting:** Asian exporters will need to enhance their carbon reporting and verification processes to comply with CBAM requirements. This includes accurately measuring and declaring the carbon content of their products.
4. **Market Opportunities:** Companies that can innovate and reduce their carbon emissions could gain a competitive advantage in the EU market. Additionally, aligning with CBAM regulations can position these businesses favorably as global sustainability standards evolve.
5. **Domestic Regulatory Change:** As the EU CBAM takes effect, Asian countries may also face increased pressure to tighten their own environmental regulations to align more closely with international standards and ensure their industries remain competitive in the global market. According to one estimate, up to 57% of Malaysia's exports to the EU may be impacted if manufacturers do not comply with the equivalent emissions standards.¹⁶ In response to CBAM, one Deputy Minister has stated that Malaysia plans to implement carbon pricing and explore the possibility of a carbon tax, indicating potential future government actions.¹⁷

How FTI Consulting Can Help

If you would like to learn more about how FTI Consulting can support you in ensuring that your business is ready for CBAM, please do reach out to our team of experts.

We can assist companies in navigating the complexities of CBAM through:

- 1. Policy and Regulatory Insights:** FTI Consulting can provide policy and regulatory affairs insights in order to enable companies to stay up-to-date with the latest developments in the CBAM, and other issues which matter most, enabling informed decisions to be taken at key moments in time.
- 2. Risk Assessment:** FTI Consulting can conduct supply chain mapping, gap analysis and supplier risk assessment and advise on approaches to managing these.

- 3. Stakeholder Engagement:** Through our global Public Affairs team, we can facilitate engagement with key stakeholders in the region, as well as the EU, to ensure that companies' voices are heard in policy discussions.

FTI Consulting has teams on the ground in Asia and the EU, providing local and international expertise, to equip companies with real-time support to effectively navigate the regulatory landscape, including compliance with CBAM requirements.

By leveraging FTI Consulting's multidisciplinary expertise and local presence, Asia-based companies can effectively manage a changing regulatory environment, ensuring compliance while maintaining their competitive edge in the global market.

¹“Carbon Border Adjustment Mechanism”, European Commission, n.d., <https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#cbam>

²“Carbon leakage”, European Commission, n.d., <https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/free-allocation/carbon-leakage_en>

³“Carbon Border Adjustment Mechanism”, European Commission, n.d., <https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#cbam>

⁴“Whitehouse and DelBene Reintroduce Carbon Border Adjustment Bill to Boost Domestic Manufacturers and Tackle Climate Change”, Sheldon Whitehouse (6 February 2024), <<https://www.whitehouse.senate.gov/news/release/whitehouse-and-delbene-reintroduce-carbon-border-adjustment-bill-to-boost-domestic-manufacturersand-tackle-climate-change/>>

⁵“Exploring Border Carbon Adjustments for Canada”, Government of Canada, n.d., <<https://www.canada.ca/en/department-finance/programs/consultations/2021/border-carbon-adjustments/exploring-border-carbon-adjustments-canada.html>>

⁶“Consultation on the introduction of a UK carbon border adjustment mechanism”, Gov.UK (21 March 2024), <<https://www.gov.uk/government/consultations/consultation-on-the-introduction-of-a-uk-carbon-border-adjustment-mechanism>>

⁷Chris Bowen, “Speech to Australian Business Economists”, The Hon Chris Bowen MP Minister for Climate Change and Energy (15 August 2023), <<https://minister.dcceew.gov.au/bowen/speeches/speech-australian-business-economists>>

⁸Samuel Pleek and Ian Mitchell, “The EU's Carbon Border Tax: How Can Developing Countries Respond?”, Center for Global Development (15 November 2023), <<https://www.cgdev.org/blog/eus-carbon-border-tax-how-can-developing-countries-respond#:~:text=The%20European%20Commission%20estimates%20annual,recovery%20package%20agreed%20in%202020.>>

⁹“Carbon Border Adjustment Mechanism”, European Commission, n.d., <https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#cbam>

¹⁰“Carbon Border Adjustment Mechanism”, European Commission, n.d., <https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#cbam>

¹¹Asian Development Bank, “EU Carbon Tariff Likely to Have Limited Impact on Emissions Without Global Efforts”, Asian Development Bank (26 February 2024), <<https://www.adb.org/news/eu-carbon-tariff-likely-have-limited-impact-emissions-without-global-efforts>>

¹²“Carbon Border Adjustment Mechanism”, European Commission, n.d., <https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#cbam>

¹³“Regulation (EU) 2023/1115 of the European Parliament and of the Council”, EUR-Lex (31 May 2023), <<http://data.europa.eu/eli/reg/2023/1115/oj>>

¹⁴Evan Matthews, “Carbon Leakage, Leaking Policies: How the EU's CBAM Is Impacting Indonesia and Taiwan”, Earth.org (27 March 2024), <<https://earth.org/how-the-eus-cbam-is-impacting-indonesia-and-taiwan/>>

¹⁵Ismi Damayanti, “Indonesia launches carbon exchange to speed emission cuts”, Nikkei Asia (26 September 2023), <<https://asia.nikkei.com/Spotlight/Environment/Climate-Change/Indonesia-launches-carbon-exchange-to-speed-emission-cuts>>

¹⁶Bank Negara Malaysia, “Navigating Malaysia's Economic Transition towards a Decarbonised Future”, Bank Negara Malaysia, n.d., <[https://www.bnm.gov.my/documents/20124/10150285/emr2022_en_box3.pdf#:~:text=Meanwhile%2C%20the%20phase%2Din%20of,domestic%20manufacturers%20\(Chart%209\).>](https://www.bnm.gov.my/documents/20124/10150285/emr2022_en_box3.pdf#:~:text=Meanwhile%2C%20the%20phase%2Din%20of,domestic%20manufacturers%20(Chart%209).>)

¹⁷“Malaysia has to start carbon pricing, tax, ahead of EU's CBAM rollout in 2026”, Bernama (1 July 2024), <<https://www.bernama.com/en/region/news.php?id=2313271>>

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