

Carbon Border Adjustment Mechanism



EU Commission must take into account the complexity of products and implementation challenges, prioritising a revision before considering an extension to further sectors under CBAM

The Carbon Border Adjustment Mechanism (CBAM) is based on the EU's plan to incentivise industry in third countries to take climate action as well as to address the carbon leakage by disincentivising the relocation of industries to regions with weaker climate policies. In this way, CBAM complements the Emissions Trading System (ETS), the cornerstone of the EU climate policy. VDMA is a strong advocate of climate action through innovating enabling technologies that drive sustainability and decarbonisation in every industry. However, the current CBAM design imposes disproportionate costs and complexities on the mechanical engineering companies, especially SMEs, posing barriers to exports and risks for its competitiveness.

The introduction of the transitional phase of the CBAM from Q4 2023 has by all accounts not gone smoothly. Support from both the EU Commission and National Competent Authorities was lacking across the EU. The necessary CBAM transitional registry was not up and running on time and key information, such as the default values were only published at the last minute. Covering initially seven industrial sectors: cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen, the importers of specific goods under these categories will be required, as of 2026, to purchase certificates for these imports equivalent to the weekly EU carbon price. In its transitional phase as of October 2023 till the end of 2025, the importers are obliged to submit reports on a quarterly basis indicating the embedded emissions of their imports without the need to buy and surrender certificates. The future implementation of CBAM must be phased-in further in advance with greater predictability and clarity.

The implementation of the CBAM reporting obligations has been challenging for mechanical engineering companies. During the first four reporting periods, the transitional registry's technical issues together with the lack of any administrative support and guidance on implementation at national and EU level resulted in great uncertainty. CBAM represents a huge bureaucratic burden for the companies that undertake all efforts to collect the correct emissions data needed. With the costs of CBAM implementation averaging 6-digit figures, and the profitability of some smaller companies at stake, a thorough assessment of the damage caused by CBAM to importing industries must be undertaken before any further extension is considered.

Particularly for SMEs, CBAM has a disproportionately negative impact. The increased administrative burden for reporting obligations results in higher costs for smaller companies, which lack the internal infrastructure and financial resources to navigate the complexity of emissions calculations. This forces them to divert critical resources away from innovation and market expansion, leaving them at a competitive disadvantage both domestically and internationally.

The current CBAM design also increases the cost of manufacturing in Europe. Higher production costs due to an increase in raw material and primary goods prices mean a loss of competitiveness for mechanical engineering companies producing within the EU. The average share of exports in our industry is 80%. It is unclear how with the CBAM international competitiveness of EU manufacturing and exports of goods manufactures shall be ensured.

Mechanical engineering companies see a high risk of carbon leakage for export-oriented industry sectors further down the value chain, both in terms of competitive prices on the global market and in terms of bureaucratic costs of compliance. Currently, investment uncertainty and ever-changing framework conditions for the mechanical engineering sector represent a high carbon leakage factor. Companies, when looking to invest now, might look outside of the EU. For this reason, VDMA sees that the flawed design of CBAM imposes

hurdles and pressure on our industry. The mechanism must not lead to a higher burden on the export-oriented European mechanical engineering sector.

Climate goals must remain the focus of EU globally oriented mechanisms. With this in mind, CBAM must not disadvantage strong European industry sectors which offer climate solutions incentivising global climate action. VDMA supports the complementary or in a best-case alternative concept of a Climate Club of front runners with a comparable level of ambitions and therewith similar transition burden. Our industry urges the EU to accelerate the work for the Climate Club established at COP28 making it a realistic alternative to CBAM benefiting the green industrial competitiveness, while ensuring an efficient and fast transition toward climate neutral economies.

VDMA calls for a targeted revision of the Carbon Border Adjustment Mechanism including the following points:

- **Extending the transitional period and use of default values until 1st January 2026**

Collecting primary emissions data from the suppliers has proven to be a difficult task according to our members' experience. In some cases, suppliers are unfamiliar with the CBAM legislation, while in others, suppliers are either unwilling or unable to provide primary data during the short transition period. Despite the efforts of the VDMA membership to inform their suppliers and collect the required data during the reporting period, the return rate of that exchange led to minimal reliable data collection. Those suppliers that are willing and able to calculate their CO₂ emissions need far more time to implement the calculation and measurement procedures. Allowing sufficient time for the suppliers to strengthen their CBAM awareness and emissions calculations is essential for effective compliance and data accuracy. Hence, VDMA calls for the extension of the transition period and the use of default values for the whole of the transitional period.

- **Ensure default values reflect real emissions values during full implementation phase**

Post full implementation the official default values will be artificially increased in value, meaning they do not reflect real emission values. However, if real emission values are not made available to EU companies by their suppliers during the full CBAM implementation phase, then EU companies should have a right to use default values which reflect real emissions levels. Otherwise, EU-based companies will have to report artificially higher emissions levels and pay for more certificates than necessary, financially penalizing EU companies for the non-compliance of third country companies. Hence, VDMA calls for the creation and use of realistic default values for the definitive implementation period.

- **Burden of Proof Mechanism with clear guidelines urgently needed**

The introduction of an 80% use of real emissions data as of July 2024 makes CBAM compliance very challenging for EU importing companies. Many EU companies have invested both financial and human resources into attempting to attain the primary emissions data. If suppliers are unwilling or unable to provide the real emission data, it is unacceptable to leave EU companies liable to sanctions, despite their best efforts, with the liability decision left to the discretion of national authorities. Companies need clear EU-wide standardized guidelines on what burden of proof they should provide and will be accepted by authorities, should their suppliers not supply them with the necessary data. In such cases, there is still unclarity surrounding the application and degree of fines for incomplete reporting. Many companies have sites in several EU countries and the EU Commission must ensure a level playing field when it comes to burden of proof. VDMA supports a mechanism that supports EU importing companies should third party companies from outside the EU refuse to provide the necessary emissions data.

- **Increase significantly the de minimis criterion**

VDMA believes that the current amount of EUR 150 is not a proportionate threshold. Many imports which reach this monetary value in the mechanical engineering sector represent 1kg or less of CO₂ emissions, due to the high cost of very high quality, small parts and components. The administrative burden that companies face vs. the very low climate impact of their imports in these examples is disproportionate.

- **Support for companies with limited resources and SMEs desperately needed**

Due to the complexity of the reporting obligations, many companies are forced to seek the support from expensive external consultants to ensure CBAM compliance. However, the EU and the national competent authorities must provide more hands-on and immediate support for companies who do not have the resources to cope with CBAM in-house and struggling with the extremely high costs of outsourcing to consultants.

- **WTO compatibility must be proven by the EU institutions before full implementation of the CBAM**

Whilst the European Commission has expressed its belief that CBAM is WTO conform, many third countries and WTO members view it as a protectionist measure. One example is India, which sees CBAM as a trade barrier that complicates its Free Trade Agreements negotiations with the EU. Many suppliers also see CBAM as a protectionist mechanism and therefore refuse to provide primary data to the EU importers for their reports during the transitional period. The absence of proof for WTO conformity could lead to trade retaliation measures with serious consequences for the EU exporting industry sectors such as the mechanical engineering industry. The use of CBAM income towards the general budget does not without equivocation fulfil the criteria of an environmental measure under WTO law and VDMA therefore highly doubts the WTO compatibility of this aspect of the legislation. VDMA understands that the European Commission seeks to create a level playing field for those sectors that are subject to the ETS. However, as held above without measures that support EU manufacturing the CBAM will merely burden the competitiveness of EU manufacturing.

- **Streamlining reporting for parent companies**

For companies operating across multiple locations across in Europe, implementing CBAM has proven particularly challenging. Requiring each office within a Member State to submit individual reports has resulted in additional burden, duplicated efforts, and extended processing time across the organisation. A more streamlined reporting process, allowing the parent company to report for all imported goods while using digitalisation tools for gathering emissions data would enhance efficiency, accelerate the efforts for CBAM compliance, and support more data acquisition.

- **CBAM must be harmonised with EU and international Company, and Product Carbon Footprint calculation standards**

With CCF- and PCF-calculations there are already two calculations for Carbon dioxide content in products. For CBAM the EU explicitly expects a third way to calculate the Carbon dioxide content for a product which is not related to either CCF or PCF calculations. The allowance to use a company's pre-existing PCF-calculations based on current standards would help to ease the whole process and increase acceptance for all participants in the supply chain. Elsewise a method for translating PCF-data into CBAM-data would be helpful.

- **Temporary reporting of indirect emissions**

The temporary requirement to report indirect emissions under CBAM, which is not required after 2026, introduces additional complexity and administrative burden to reporting obligations. Given that this requirement is only in place for a limited amount of time, there is

little long-term incentive for suppliers to invest in providing sufficient data for reporting indirect emissions

- **CBAM potential interference with ESPR**

The upcoming product regulations under the Ecodesign for Sustainable Products Regulation (ESPR) foresees the calculation of the carbon footprint for specific products, including imported intermediate goods. For those industries where both CBAM and ESPR will apply, there is a significant risk of duplicative regulation in emissions reporting. To prevent unnecessary administrative overlap and ensure regulatory efficiency, it is essential to avoid double regulation of emissions calculations across these two frameworks.

VDMA urges the European Commission to consider the following points before extending the scope of the Carbon Border Adjustment Mechanism:

- **A thorough impact assessment of CBAM for our downstream industries producing in the EU** including the higher cost burden for EU exporting industries. Some VDMA members will be affected by the higher import costs of raw materials. As companies which export a large proportion of their products, they will be less competitive on the global market and there will be a higher risk of carbon leakage.

- **Caution in extending the scope to more complex products**

Machinery and plant products are complex and regularly have many different parts and components built in, each of which involves several often complex processing steps. Whilst acquiring primary emissions data for simple or semi-complex goods has already proven to be a complicated and lengthy process, the accumulation of emissions data along long and complex value chains based in third countries will be impossible to accurately represent. An extension of CBAM to downstream goods would exponentially increase the reporting burden on EU importing companies, whilst significantly reducing the likelihood of obtaining accurate - if any- primary emissions data from supply chains in third countries.

Equally, if far more machinery-related products and components fall under the CBAM scope in future, the financial burden of reporting is likely to increase for mechanical engineering companies. Hence, CBAM, as currently stands, it is not fit for an extension to more complex goods. VDMA calls the European Commission for a detailed impact assessment of CBAM demonstrating the impact of such an extension to downstream products to EU exporting industries.

- **Understanding complex value chains**

For many highly specialized world leading EU mechanical engineering companies there is only one supplier globally who can offer the quality and tailor-made solution needed by the EU company. New supplier contracts can take upwards of 1.5 years to be developed and often there is no alternative supplier. Switching suppliers on the basis of lack of primary data for CBAM is therefore not an option for many EU importers in the sector. VDMA calls for a thorough analysis of the complexity of value chains before any sector extension is even considered.

- **Extending the scope of the CBAM should not be left to delegated acts.** According to Article 28 the Commission has the power to decide by delegated or implementing acts on significant matters (e.g. expanding the list of exempted countries, recognising third country systems for carbon pricing, default values and enlarging the scope to include slightly modified products). As the European Commission has expressed the intention to extend the scope in the future to other sectors, VDMA believes this must not be carried out via a delegated act process but rather take place in a transparent and democratic process involving all the EU institutions. In case of an extension of the CBAM to other sectors, particular care should be taken to avoid distortions of competition between sectors covered by the CBAM and those not covered (especially if they produce the same products).

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