

CBAM - The world's first carbon border tax will have great impact on Brazilian exporters

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Brazilian exporters of steel and iron, aluminium, fertilisers, and cement will have to adapt to a new export regulation in Europe. The European Commission has proposed its final draft to a new tax with major consequences for Brazilian exports, the world's first carbon border tax called "Carbon Border Adjustment Mechanism" (CBAM).

EU importers of such goods will be required to buy CBAM certificates representing the tonnage of CO₂ emissions embedded in the goods they import. The certificates will mirror the Emissions Trading System (ETS) price, being calculated by the average auction price of EU ETS allowances. If non-EU producers can prove that they have already paid a price for the carbon used in the production, the cost can be fully deducted for the EU importer.

The economic effects of the CBAM will be felt in 2026, when the system will most probably be fully operational. During the transitional phase, the importers **will only have to report the total emissions related to their imported goods**, without paying a financial adjustment (from 2023 to the end of 2025). From 2026, the Commission is estimating that the CBAM will generate a budget revenue from EUR 5 billion to EUR 14 billion per year.

Brazil will be the most affected country in Latin America by the CBAM considering its almost **EUR 2 billion export of iron and steel to the EU**. The country does not have a taxation in carbon emission, hence there will not be any credit to be deducted once the good is imported in the EU. The impact in the Brazilian industry will be immense, given that **90% of the production** of certain products such as flat rolled steel and iron or non-alloy steel with a specific width are exported.

The CBAM is still a proposal from the EU Commission to the Parliament, currently in its final stage of public consultation between 15 July and 10 September 2021. The proposal, however, has strong political support, as well as fair amount of pressure from the public opinion in the EU. Although we cannot know in advance how the regulation will look like once approved by Parliament, it is likely that CBAM will be enacted, one way or another. Thus, companies should prepare themselves as of now in order to be able to comply with future requirements.

BLOMSTEIN is closely following this and other regulations within the ESG (Environmental, Social and Governance) scope, such as the German's supply chain

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legislation and the EU Taxonomy regulation. If you are interested in discussing other aspects of the CBAM or other ESG regulation, please do not hesitate to reach out to [Roland Stein](#) or [Bruno Galvão](#). They will be more than happy to assist you.