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UOB Research · 2020-05-24 · English original

Sustainability Primer Malaysia How EU's Carbon Border Adjustment Mechanism (CBAM) affects Malaysia?

How EU's Carbon Border Adjustment Mechanism (CBAM) affects Malaysia? Monday, 20 May 2024 2 I Page OVERVIEW About EU's Carbon Border Adjustment Mechanism (CBAM) HOW EU'S CBAM AFFECTS MALAYSIA? 1. Impact on Malaysia's businesses and exporters 2. The transition phase 3. CBAM timeline 4. CBAM process 5. Scope of products subject to CBAM KEY TAKEAWAYS The need to stay competitive and relevant CONTENT

What is CBAM? A carbon pricing system aimed to level the playing field between domestically produced goods in EU and imported goods from non-EU producers. The CBAM cost is charged to equalize the discrepancies in carbon cost. Source: UOB Global Economics & Markets Research, PWC OVERVIEW About EU's Carbon Border Adjustment Mechanism (CBAM) The EU's Carbon Border Adjustment Mechanism or more commonly known as CBAM will be enforced definitively from 2026, following the current transitional phase between 2023 and 2026. https://www.uob.com.my/about/news/2024/news-release-may07-24.page https://www.uob.com.my/about/news/2024/news-release-may07-24.page How EU's Carbon Border Adjustment Mechanism (CBAM) affects Malaysia? Monday, 20 May 2024 3 I Page Level playing field is created as a result of "offsetting" discrepancies in carbon cost by charging CBAM cost in the same manner carbon cost is charged to EU manufacturers * CBAM cost will be assessed on carbon intensive goods when imported into EU based on their embedded CBAM emission Carbon cost Cost of imported goods *CBAM cost Domestic EU goods Carbon cost Cost of goods Cost of goods Equalising cost of goods between EU and non-EU producers is designed to ensure that the EU's climate objectives are not undermined and compatible with WTO-rules. is the EU's tool to address carbon leakages which entails relocation of companies based in the EU to countries with less stringent climate policies or when EU products are replaced by more carbon-intensive imports. is aimed to level the playing field by requiring "other producers" outside the EU to pay an additional charge or tax for selling carbon intensive goods to the EU. In doing so, this mechanism instills a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU. UOB Malaysia has launched a program to assist businesses to understand and prepare for the European Union (EU)'s carbon border adjustment mechanism (CBAM). Read more

Source: UOB Global Economics & Markets Research, PWC HOW EU'S CBAM AFFECTS MALAYSIA? 1. Impact on Malaysia's businesses and exporters The direct impact for Malaysia's businesses and exporters that fall within the scope of CBAM How EU's Carbon Border Adjustment Mechanism (CBAM) affects Malaysia? Monday, 20 May 2024 4 I Page At present, there is no legal obligation for Malaysia's exporters to comply. However, importers in EU will be required to report the price of embedded carbon emissions generated in the production of imported goods. This is particularly important given that up to 75% of Malaysia's exports to the EU will be impacted by CBAM, collectively accounting for about 8% of Malaysia's total exports in 2021 to 2023. Securities Commission Malaysia Capital Market Stability Review 2023 As companies enhance their emissions reporting capabilities within their supply chains, EU importers may favor lower emitting suppliers to reduce CBAM-related costs. As suppliers implement processes and technologies to accurately measure emissions within their supply chain, the increased transparency could spur innovation to reduce emissions and mitigate potential transition risks. If a Malaysian exporter is unable to provide this information in compliance to the EU methodology, are additional reporting requirements to facilitate this mechanism. This would incur potential additional costs to local companies to enhance data collection practices and process. then there is a risk of losing the business and market share given the competitive macro landscape. Assuming that EU importers pass through additional CBAM costs, Malaysia's producers could face a higher price for their raw materials.

October 2023 December 2019 March 2022 July 2021 Until end of 2022 January 2026 Full reporting according to the new methodology (EU method) Reporting based on an equivalent method (three options) Reporting based on default reference values (only until July 2024) 2. The transition phase 3. CBAM timeline How EU's Carbon Border Adjustment Mechanism (CBAM) affects Malaysia? Monday, 20 May 2024 5 I Page Source: UOB Global Economics & Markets Research, PWC Transitional phase (2023-2026) CBAM will initially apply to imports of certain goods whose production is carbon intensive and at most significant risk of carbon leakage. During this period, importers of goods in the scope of the new rules will only have to report greenhouse gas emissions (GHG) embedded in their imports (direct and indirect emissions). The price of the certificates will be calculated depending on the weekly average auction price of EU ETS allowances expressed in €/tonne of CO2 emitted. EU importers of goods covered by CBAM will register with national authorities where they can also buy CBAM certificates. From 2026 onwards Sectors covered in the first phase of the CBAM Aluminium Fertilisers Electricity Cement Iron & Steel Hydrogen EU importers will declare the emissions embedded in their imports and surrender the corresponding number of certificates each year. If importers can prove that a carbon price has already been paid during the production of the imported goods, the corresponding amount can be deducted. CBAM announced as part of EU Green Deal CBAM proposal by EU Commission CBAM proposal by EU Council Trialogue meetings between European Commission, Parliament and Council Finalization of CBAM design by the EU Start of transitionally operational CBAM and obligatory emission reporting Until the end of 2024, companies will have the choice of reporting in three ways: https://bit.ly/3yvYGia https://bit.ly/3yvYGia Starting 1 Jan 2025, only the EU method will be accepted and estimates (including default values) can only be used for complex goods if these estimations represent less than 20% of the total embedded emissions.

https://bit.ly/44PHSyP https://bit.ly/4dHzYM6 https://bit.ly/3V2AH35 https://bit.ly/3WFIIMH https://bit.ly/4dHzYM6 https://bit.ly/4blxMrV https://bit.ly/3QOoWLk https://bit.ly/3K7IbLO 4. CBAM process 5. Scope of products subject to CBAM Over time, the scope of products under CBAM will be reviewed to assess the feasibility of including other goods such as certain downstream products and those identified as suitable candidates during negotiations. The report will include a timetable setting out their inclusion by 2030. How EU's Carbon Border Adjustment Mechanism (CBAM) affects Malaysia? Monday, 20 May 2024 6 I Page Source: UOB Global Economics & Markets Research, PWC, Publications Office of EU CN codes: 8-digit classification codes used in EU Further information for EU importers Exporter of CBAM goods EU importer of CBAM goods ('CBAM Declarant') CBAM Transitional Registry EU Commission Provide carbon data of exported CBAM goods Monitor import of CBAM goods EU customs Submit CBAM report every quarter Share import data of CBAM goods Exporter of CBAM goods EU importer of CBAM goods ('CBAM Declarant') CBAM Registry Provide carbon data of exported CBAM goods Submit CBAM declaration and surrender CBAM certificates by 31 May each year Purchase CBAM certificates 1 Oct 2023 - 31 Dec 2025 1 Jan 2026 ~ Unwrought (7601) Powders (7603) Bars (7604) Wire (7605) Plates (7606) Foil (7607) Tubes (7608) Fittings (76090000) Structures (7610) Reservoirs (76110000) Casks (7612) Containers (76130000) Stranded (7614) Other Articles (7616) CBAM also applies to products resulting from inward processing procedure when imported into EU. Aluminium Goods subjected to CBAM Agglomerated iron ores (26011200) Iron and steep (72 - except some items) Sheet piling (7301) Railway (7302) Tubes of cast iron (730300) Tubes, other than case iron (7304) Other tubes (7305) Other tubes and hollow profiles (7306) Tube fittings (7307) Structures (7308) Reservoirs (7309) Tanks (7310) Containers (7311) Screws, nut and similar goods (7318) Other articles (7326) Electrical Energy (27160000) Electricity Chemicals Cement clinkers (25231000) Kaolin and other Kaolinic clays (25070080) White Portland cement (25232100) Other Portland cement (25232900) Aluminous cement (25233000) Other hydraulic cements (25239000) Nitric acid; sulphonitric acids (28080000) Ammonia (2814) Nitrates of potassium (28342100) Mineral or chemical fertilisers, nitrogenous (3102) Mineral or chemical fertilisers, nitrogen, phosphorus and potassium (3105) CBAM Goods Hydrogen (280410000) Iron & Steel Fertilizers Cement

6. Emission information to be reported per CBAM sector KEY TAKEAWAYS The need to stay competitive and relevant How EU's Carbon Border Adjustment Mechanism (CBAM) affects Malaysia? Monday, 20 May 2024 7 I Page Source: UOB Global Economics & Markets Research, PWC CEMENT ITEM Reporting metrics GHG covered Type of emission covered during transitional period Type of emission covered after implementation (2026) Determination of direct emissions Determination of indirect emissions *1: Default values may be used where the actual emissions cannot be adequately determined. *2: Actual emissions may be used where certain conditions are met. FERTILISERS HYDROGEN IRON & STEEL SECTOR ALUMINIUM ELECTRICITY Per MWh CO 2 Direct Direct N/A Based on default values*2 CO 2 & PFCs CO 2 CO 2 CO 2 (N 2 O for some) CO 2 Per tonne of good Direct and indirect Based on actual emissions*1 Based on default values*2 Direct and indirect Direct (subject to review) Businesses to be aware that requests for data will become the norm for CBAM scope of goods exported to the EU. Such requests may come from direct or indirect buyers through the supply chain. To stay competitive and relevant, businesses will have to comply or may risk being removed from procurement lists. To prepare, businesses exporting to EU need to assess if they are able to provide data that can be used to calculate the embedded carbon emissions in accordance with the provisions set out by EU. It is recommended to communicate with the EU importers to confirm the details required, and establish a governance and point of contact. To prepare, businesses exporting to EU need to assess if they are able to provide data that can be used to calculate the embedded carbon emissions in accordance with the provisions set out by EU.

The Team Julia Goh Senior Economist Julia.GohML@uob.com.my Tan Lena Business Data Designer Lena.Tan@uobgroup.com Global Economics & Markets Research Email: GlobalEcoMktResearch@uobgroup.com URL: www.uobgroup.com/research

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