

The background of the slide is an aerial photograph of a large, multi-lane concrete bridge spanning a wide river. The bridge has several support pillars in the water. On the riverbanks, there are green fields, some industrial buildings with white roofs, and power line towers. The sky is blue with scattered white clouds. The text is overlaid on the lower-left portion of the image.

Sustainability Primer Malaysia

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

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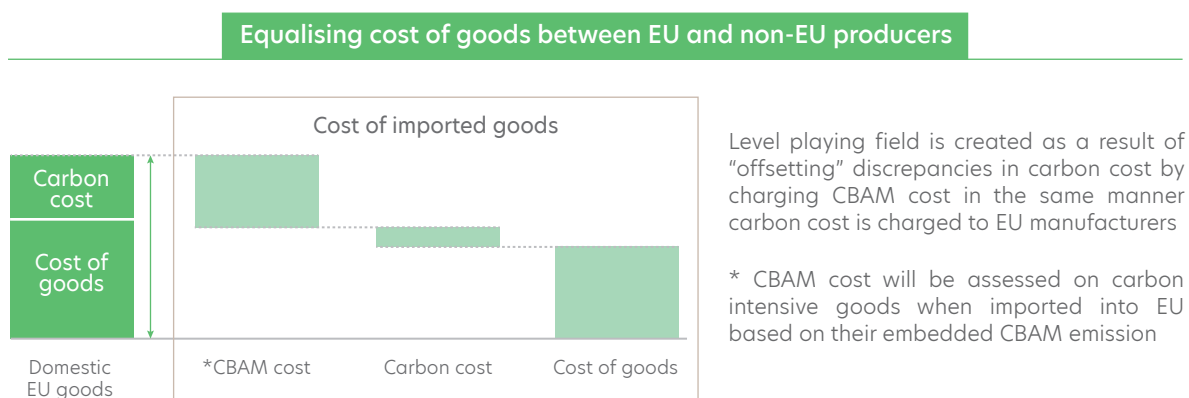
OVERVIEW

About EU's Carbon Border Adjustment Mechanism (CBAM)



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.



The EU's Carbon Border Adjustment Mechanism or more commonly known as CBAM



is designed to ensure that the EU's climate objectives are not undermined and compatible with WTO-rules.



will be enforced definitively from 2026, following the current transitional phase between 2023 and 2026.



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.



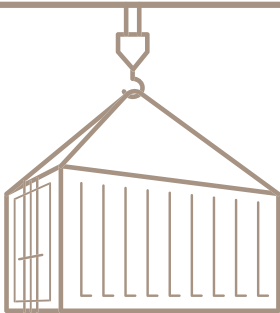
UOB Malaysia has launched a program to assist businesses to understand and prepare for the European Union (EU)'s carbon border adjustment mechanism (CBAM). [Read more](#)

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

are additional reporting requirements to facilitate this mechanism. This would incur potential additional costs to local companies to enhance data collection practices and process.

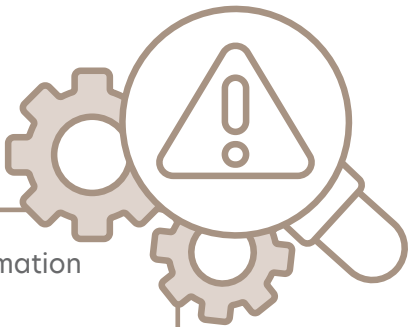


At present, there is no legal obligation for Malaysia's exporters to comply.

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.

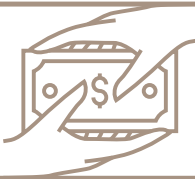
Securities Commission Malaysia
Capital Market Stability Review 2023



If a Malaysian exporter is unable to provide this information in compliance to the EU methodology,

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.

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.



2. The transition phase



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.

Sectors covered in the first phase of the CBAM



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).

Until the end of 2024, companies will have the choice of reporting in three ways:

- 1 Full reporting according to the new methodology (EU method)
- 2 Reporting based on an equivalent method (three options)
- 3 Reporting based on default reference values (only until July 2024)

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.



From 2026 onwards

EU importers of goods covered by CBAM will register with national authorities where they can also buy CBAM certificates.



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.



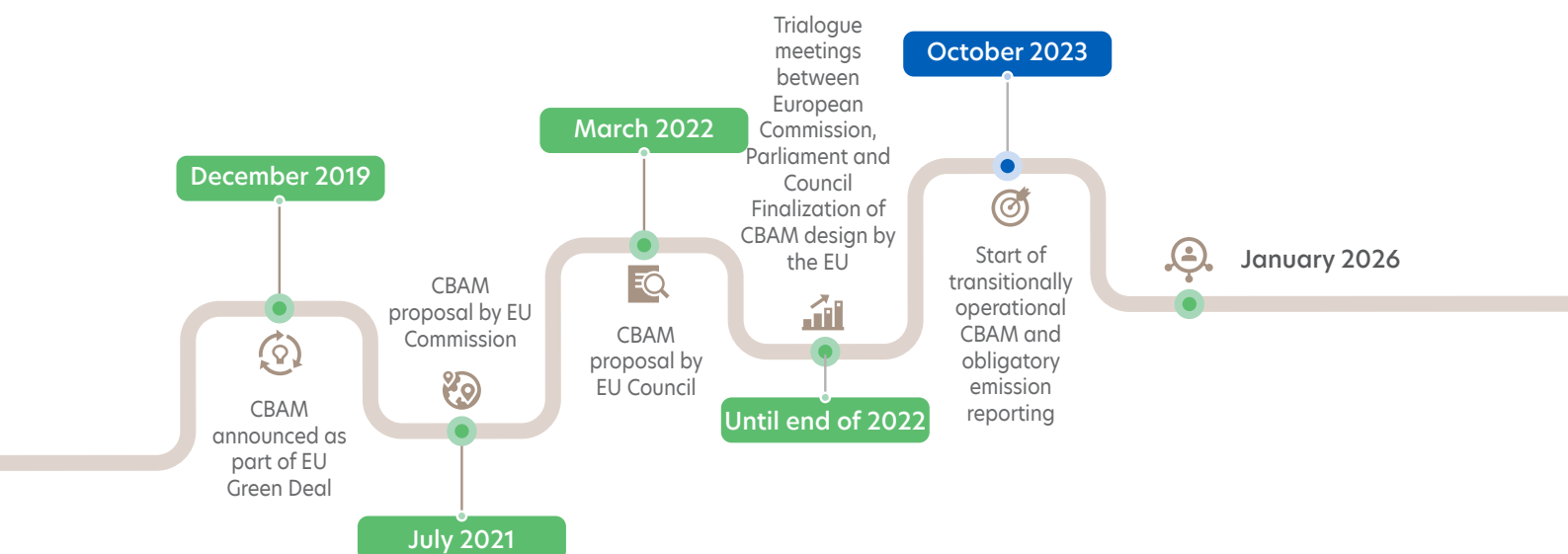
EU importers will declare the emissions embedded in their imports and surrender the corresponding number of certificates each year.



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.



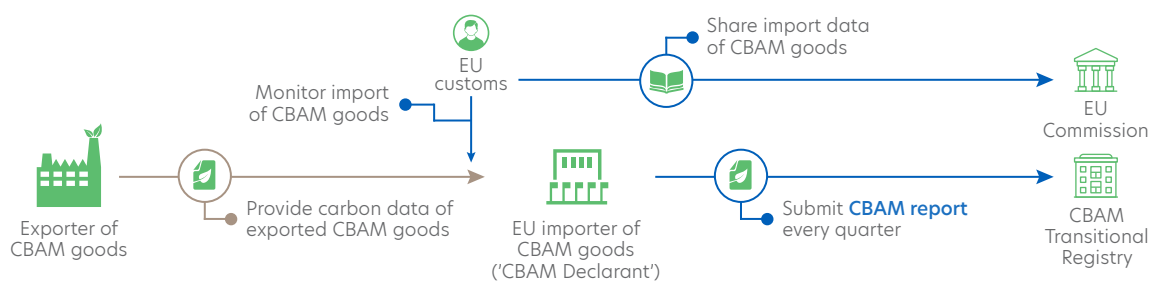
3. CBAM timeline



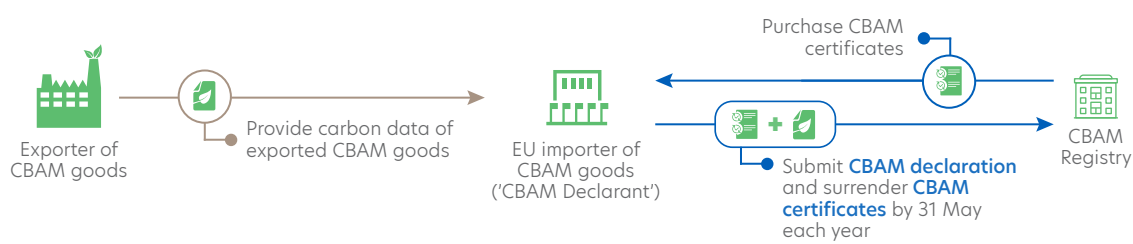
Source: UOB Global Economics & Markets Research, PWC

4. CBAM process

1 Oct 2023 - 31 Dec 2025

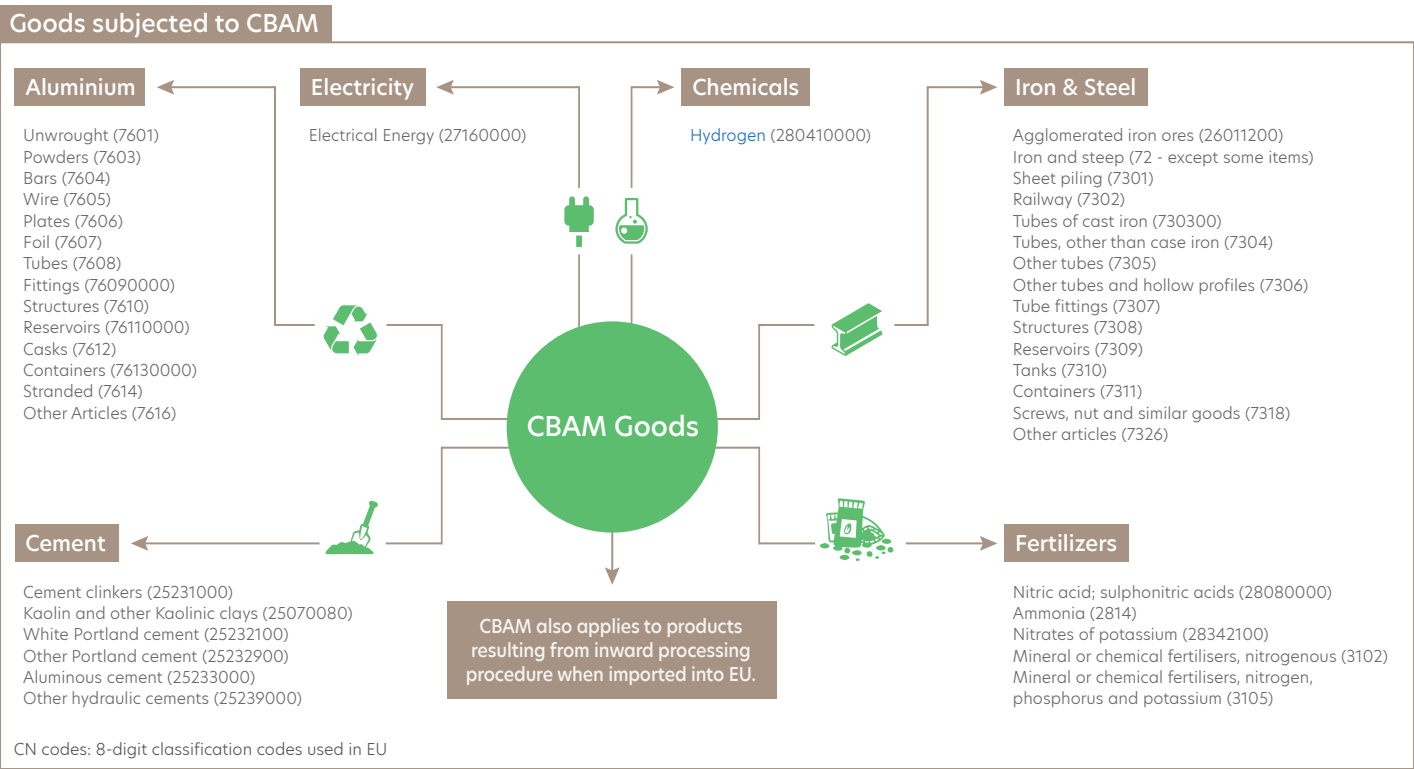


1 Jan 2026 ~



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.



6. Emission information to be reported per CBAM sector



ITEM	SECTOR					
	CEMENT	FERTILISERS	HYDROGEN	IRON & STEEL	ALUMINIUM	ELECTRICITY
Reporting metrics	Per tonne of good					Per MWh
GHG covered	CO ₂	CO ₂ (N ₂ O for some)	CO ₂	CO ₂	CO ₂ & PFCs	CO ₂
Type of emission covered during transitional period	Direct and indirect					Direct
Type of emission covered after implementation (2026)	Direct and indirect		Direct (subject to review)			Direct
Determination of direct emissions	Based on actual emissions*1					Based on default values*2
Determination of indirect emissions	Based on default values*2					N/A

*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.

KEY TAKEAWAYS


The need to stay competitive and relevant

01 | 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.




02 | To stay competitive and relevant, businesses will have to comply or may risk being removed from procurement lists.

03 | 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.



04 | It is recommended to communicate with the EU importers to confirm the details required, and establish a governance and point of contact.



05 | 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.

Source: UOB Global Economics & Markets Research, PWC

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Monday, 20 May 2024
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