

## JBCE'S POSITION ON THE CBAM SCOPE EXTENSION TO DOWNSTREAM GOODS

### INTRODUCTION

The Japan Business Council in Europe (JBCE) would like to share its concerns regarding the proposed extension of the Carbon Border Adjustment Mechanism's (CBAM) scope for three reasons: (i) lack of proportionality, (ii) difficulty in complying on the basis of actual emission data, and (iii) insufficient alternative measures to enable compliance. We therefore call on the European Commission for deliberate consideration on the viability of the scope extension and to provide options for downstream goods importers to adopt simplified methods to comply with CBAM, as well as to develop rules relating to the threshold considering the unique nature of downstream goods and the future harmonisation between the carbon emissions calculation methodologies adopted in CBAM and the Ecodesign for Sustainable Product Regulation (ESPR) regarding iron, steel and aluminium products.<sup>1</sup>

### KEY MESSAGES

- Extending the scope to downstream goods may not be proportionate, considering that there are many small downstream goods with low embedded emissions.
- It is extremely difficult to trace the actual embedded emissions in downstream goods, which involve numerous business operators in the upstream supply chain.
- The application of the current default values designated by CN code and country of origin does not facilitate compliance, as downstream goods tend to be composed of numerous materials and components from multiple suppliers located in different countries.
- Three elements need to be adjusted in parallel with the scope expansion.
  - Provide options for downstream goods importers to adopt simplified methods to comply with CBAM with reduced administrative burden (e.g., single default value without mark-up).
  - The threshold (50 tonnes of imports of CBAM-covered goods per year) could specify that only the net weight of parts made from CBAM-covered goods is taken into account when determining whether the threshold has been reached. This assessment could be based solely on self-assessment, which would not impose additional compliance burdens, such as third-party verification.
  - Ensure, in the medium to long term, harmonisation between the carbon emissions calculation methodologies adopted in CBAM and ESPR regarding iron, steel and aluminium products.

<sup>1</sup> This is the response to the [Commission's call for evidence](#) "Carbon Border Adjustment Mechanism – downstream extension, additional anticircumvention measures and rules for the electricity sector".

**(i) Proportionality**

If the scope of CBAM is expanded to more downstream goods with low net weight, the cost of collecting emission data will be significant, while the contribution to decarbonisation will be minimal. JBCE believes that the expansion of the scope should be determined carefully by comparing compliance costs with the contribution to CO<sub>2</sub> emission reduction.

**[Case Study: Screws]**

If the total amount of imports of CBAM-covered goods exceeds 50 tonnes per year, it is required to declare the embedded emissions even for spare parts such as two special M2x10 screws with a mass of approximately 1g.

Assuming a CO<sub>2</sub> equivalent of 1.65 [kg CO<sub>2</sub>] / [kg steel] and a certificate price per 1 tonne of CO<sub>2</sub> emissions of EUR 70, these two screws are generating 0.01155 EUR cent CO<sub>2</sub> emission costs.

For a volume of 200 screws per year, this results in the CO<sub>2</sub> emission cost of 1.155 EUR cents per year. On the other hand, it costs several hundred Euros to calculate the embedded emissions such as operational costs to chase the upper suppliers for detailed information and consolidate the collected data.

If the scope were to be extended to include intermediate goods in the downstream manufacturing sector, it would be important to ensure that manufacturers are not discouraged from choosing goods that enable them to minimise emissions throughout the value chain. If more intermediate goods are to be covered by an extension of CBAM's scope, consideration should be given not only to the emission embedded in these goods, but also to their contribution to decarbonisation at the most downstream level. Otherwise, CBAM could hinder the adoption of greener procurement practices. This would be particularly relevant in the case of an extension to the chemical sector.

**(ii) Difficulty in complying on the basis of actual emission data**

Downstream goods made using iron/steel and aluminium often undergo multiple production stages in various geographical locations before reaching their final form. They are often composed of hundreds or thousands of parts and components, as is the case for semi-finished products and finished or assembled products. Therefore, accurately tracking actual emissions at each stage is highly challenging and places a significant administrative burden on both importers and exporters, especially in regions with underdeveloped data collection systems.

Additionally, supply chain complexity is expected to grow due to technical innovation and

market development, as companies integrate new materials, products, processes, and partners. Addressing these complexities would impose significant costs on both importers and third country installation operators.

As regularly explained by the European Commission<sup>2</sup>, the feasibility of compliance is one of the main factors to consider when determining the scope of application. The viability of CBAM with an expanded scope should be carefully examined.

**(iii) Insufficient alternative measures to enable compliance**

Enabling importers to comply with CBAM through simplified methods (e.g., default values) may be a solution to answer the difficulties associated with tracking actual emissions. However, applying the current default values designated by CN code and country of origin does not facilitate compliance for downstream goods. Indeed, they tend to be composed of numerous materials and components sourced from a number of suppliers in different countries. If importers are to apply the incumbent default values, they are required to collect detailed information such as the breakdown of the quantity of parts made of CBAM-covered goods by supply chain and detailed identification of origin. This will result in considerable compliance costs for the importers and operators of third-country installations, including SMEs.

**(iv) Three elements to adjust in parallel with the consideration of the scope expansion**

- **More flexibility to apply the single default value without mark-up**

If the European Commission plans to expand the scope, it should provide options for downstream goods importers to adopt simplified methods to comply with CBAM with reduced administrative burden.

For example, importers should be allowed to apply a single default value to the entire CBAM-covered goods component (e.g., iron and steel), regardless of their origin unless there is an exceptional reason requiring them to apply different default values due to the high carbon intensity of the material in question. This will reduce the burden on importers to identify the breakdown of quantity and origin of the parts composed of CBAM-covered goods.

In addition, the “mark-up” should not be added to the default values when used to calculate

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<sup>2</sup> e.g., European Commission, DG TAXUD, Unit C2, [“Implementation Challenges of the Carbon Border Adjustment Mechanism \(CBAM\)”](#), presentation at the 15<sup>th</sup> EU ETS Compliance Conference, 27 November 2024, p. 3.

the embedded emissions of the downstream goods, as reporting based on actual emissions data is extremely difficult to do for downstream goods. The mark-up will therefore not serve as an incentive to encourage importers to report actual emission data but will simply constitute a de-facto financial penalty without a justifiable policy objective.

- **Clarifying the threshold, maintaining self-assessment**

The threshold (50 tonnes of imports of CBAM-covered goods per year) may need to be clarified, as downstream goods covered by CBAM may include parts made of non CBAM-covered goods, meaning that the net weight can easily reach 50 tonnes even though the actual part made with CBAM-covered goods is small. For example, the threshold could specify that only the net weight of parts made from CBAM-covered goods is taken into account when determining whether the threshold has been reached. This assessment could be based solely on self-assessment, which would not impose additional compliance burdens, such as third-party verification. Setting a clear and reasonable threshold using self-assessment will not only reduce the costs on EU importers and manufacturers in third countries, but also prevent Member States' competent authorities and verification bodies from being overwhelmed by a considerable workload.

- **Harmonisation between CBAM and ESRP regarding the carbon emissions calculation methodologies of iron and steel products**

In addition, in the medium to long term, harmonisation between the carbon emissions calculation methodologies adopted in CBAM and ESRP<sup>3</sup> regarding iron, steel and aluminium products would be required, to avoid contradictions of the rules and the duplication of the compliance work.

In conclusion, we call on the European Commission to carefully examine the proportionality, operability in day-to-day activities and feasibility of extending the scope of CBAM, and to make the necessary adjustments to enable importers and relevant stakeholders to comply effectively with the regulation. It is essential to ensure these points so that CBAM complies with WTO rules on national treatment in terms of financial and administrative burdens. If the extension were to take place, we believe it would be essential to keep CBAM compliance manageable to strengthen the resilience of the EU economy by ensuring the reliability of multiple reliable sources of sub-components and other downstream goods that are linked across borders.

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<sup>3</sup> Regulation (EU) 2024/1781.

## ABOUT JBCE

Founded in 1999, the Japan Business Council in Europe (JBCE) is a leading European organisation representing the interests of 115 multinational companies. Our members operate across a wide range of sectors, including steel, information and communication technology, electronics, chemicals, automotive, machinery, wholesale trade, precision instruments, pharmaceuticals, textiles, and glass products.

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