



CBAM and New Environmental Protection Decree in Vietnam: A Guide for Manufacturers

30 November 2023

Contact us



Thang Tran

Director

Tax Advisory, Deloitte Vietnam

Phone: +84 28 710 14323

Email: qthang@deloitte.com



Chau Doan

Director

Audit & Advisory Services, Deloitte Vietnam

Phone: +84 28 710 14101

Email: chaudoan@deloitte.com



Brian Wong

Director

Chinese Services Group, Deloitte Vietnam

Phone: +84 28 710 14357

Email: wchenwei@deloitte.com



Content

- 1 | Overview of the EU's Carbon Border Adjustment Mechanism (CBAM)**
- 2 | Key requirements for CBAM's reporting**
- 3 | Vietnam's Proposed amendments to EPR regulations under draft Environmental Protection decree to amend Decree 08/2022/ND-CP**
- 4 | How to comply with the CBAM and Vietnam's new EPR regulations**
- 5 | Discussion**

Overview of the EU's Carbon Border Adjustment Mechanism (CBAM)

Overview about CBAM

CBAM serves as a tool in the EU's net zero strategy...

The EU's Net Zero ambitions



Green Deal

- The EU had adopted a **sustainable growth plan** to support its **Green Transition**
- The Green Deal provides a **roadmap**, and sets **goals** to reach **climate-neutrality by 2050**



Fit for 55 Package

- The Green Deal includes the **Climate Law** and **Fit for 55 package**, which binds the EU and Member States to a goal of achieving **climate neutrality by 2050**.
- The package also defines an interim EU target of **reducing GHG emissions** by at least **55% by 2030** compared with 1990 levels

Addressing carbon emissions in the EU

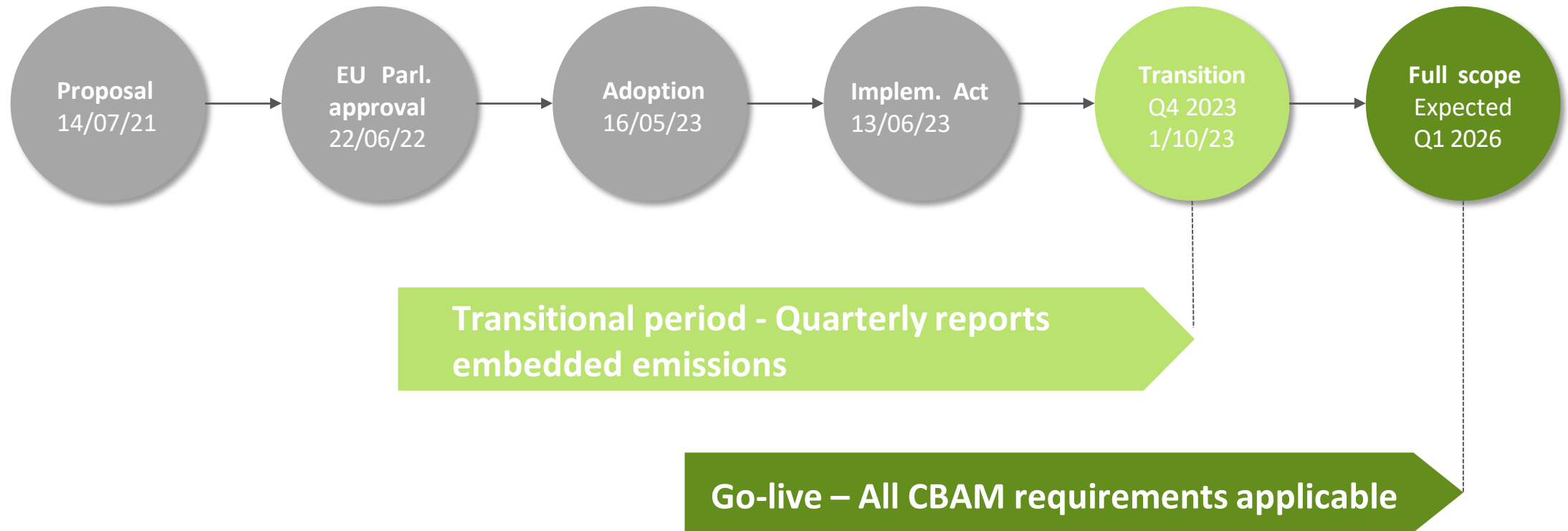
The EU Emission Trading System (ETS) - Reducing industrial emissions

- The EU Emissions Trading System (ETS) is the core EU mechanism that ensures **industrial decarbonisation in line with the Green Deal**. This is because the **overall cap on GHG emissions** allowed by entities in- scope of the ETS **reduces over time** to meet the Climate Law targets.

The EU Carbon Border Adjustment Mechanism (CBAM) - Mitigating carbon leakage

- “Carbon leakage” refers to the situation that may occur if, for **reasons of costs related to climate policies, businesses were to transfer production to other countries with laxer emission constraints**. This could lead to an **increase in their total emissions globally**. The risk of carbon leakage may be higher in certain energy-intensive industries.¹
- To mitigate this risk, **sectors and sub-sectors considered to be at risk of carbon leakage** currently receive some or all of their **ETS emission allowances for free** (“free allowances”)
- As the **provision of free allowances is set to reduce**, the EU is proposing CBAM, **targeting scope 3 upstream emissions, as a new policy tool to mitigate the risk of carbon leakage** for ETS sectors
- The increased costs associated with CBAM will incentivise companies to invest in **cleaner supply chains**







Overview about CBAM Timeline



Overview about CBAM

How CBAM impact

Scope of Products

 <u>Iron and steel</u>	 <u>Cement</u>	 <u>Fertilizer</u>
 <u>Aluminium</u>	 <u>Hydrogen Production</u>	 <u>Electricity</u>

Scope of Emissions

- **The GHG emissions**
 - Carbon dioxide (CO₂)
 - Nitrous oxide (N₂O)
 - Perfluorocarbons (PFCs)

Initially, CBAM applies to Iron, steel, aluminium, cement, fertiliser, electricity, hydrogen, certain precursors and downstream products. However, this list will be changed as the CBAM progresses

Overview about CBAM

Carbon pricing Market trends

According to the OECD, a price of **USD 147** a tonne is needed by 2030 if the world hopes to reach net-zero carbon emissions by 2050 ¹



Carbon taxes

Sets a price on carbon by defining the tax rate that applies to carbon emissions or on the carbon content of fossil fuels.



Emissions trading systems

A 'cap and trade' system that limits the number of overall emissions; tradable emissions allowances within the cap.



Addressing carbon leakage

Phased implementation of the EU Carbon Border Adjustment Mechanism from 1 October 2023 to disincentivize the offshoring of carbon intensive activities.



Optimising global emissions reductions

OECD Inclusive Forum for a more coordinated approach to global carbon mitigation efforts

¹ [OECD Effective Carbon Rates 2021](#)

Overview about CBAM

Potential costs of CBAM – Steel Sector

Key takeaways

- From the main steel exporters to the EU, **Turkey** (4,71 Mt imported yearly) and **South Korea** (2,67 Mt imported) **provide steel with the lowest carbon footprint**, Chinese (1,94 Mt imported) Indian (2,38 Mt imported) steel has a significantly higher carbon footprint.
- **Imports will come at an additional cost** – imports from Turkey and South-Korea will respectively bring a 13% and 20% price increase, while the carbon intensity of Chinese and Indian steel will be responsible for an additional cost of 24% and 27% (considering a steel price of 701 EUR/tonne¹)



Carbon intensity (CO2e/t)

Note: (1) Focus economics (2023) (2) World Bank (2022), (3) Global Efficiency Intelligence (2022), (4) Amber (2023)

Assumptions

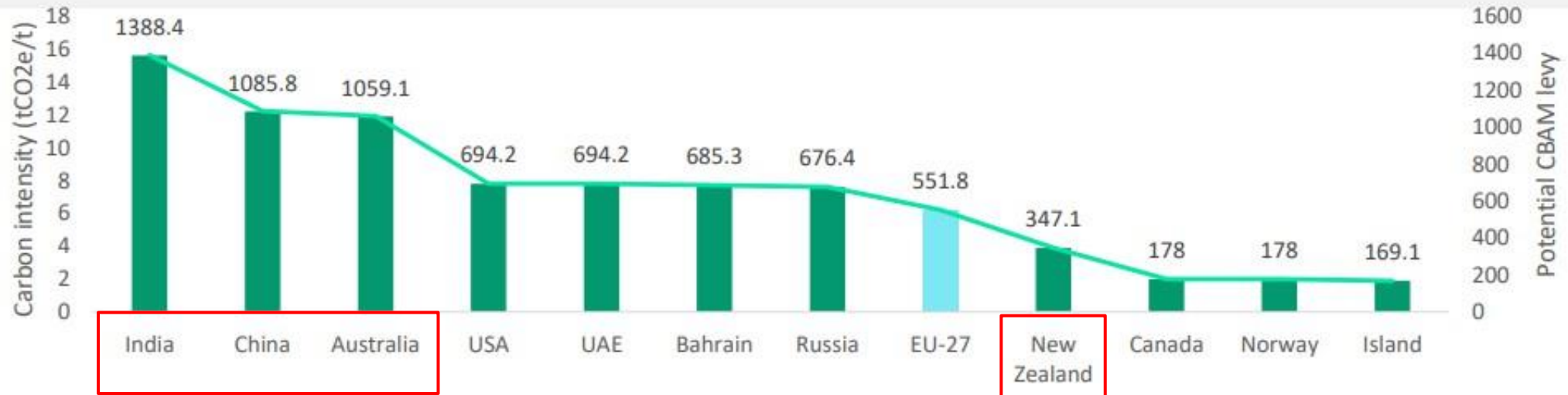
- Raw iron, steel and ferroalloys import values from third country (average values 2019/2020)²
- The CO2 intensity of the steel production in the studied countries/region in 2019³
- Calculation of estimated costs for the certificates based on the current EU ETS price: EUR 88.3 (2 July 2023)⁴

Overview about CBAM

Potential costs of CBAM – Aluminium Sector

Key takeaways

- One tonne of aluminium imported from the UAE would have an **estimated carbon levy under the CBAM of 694,2 EUR**, which would be an increase of 36% compared to current aluminium prices (considering an aluminium price of 1953 EUR/tonne¹)
- This would be an **additional carbon cost of 143 EUR per tonne** procured compared to European sourced aluminium



Carbon intensity (CO₂e/t)

Note: (1) Business Insider (2023), (2) Amber (2023) (3) Global Efficiency Intelligence (2022)

Assumptions

Final energy-related CO₂ intensity of aluminium production in 2019²

Both smelters and alumina production processes are included. The CO₂ emissions from both electricity and fuel use are included²

ETS price of EUR 88.3 (2 July 2023)³

Key requirements for CBAM's reporting

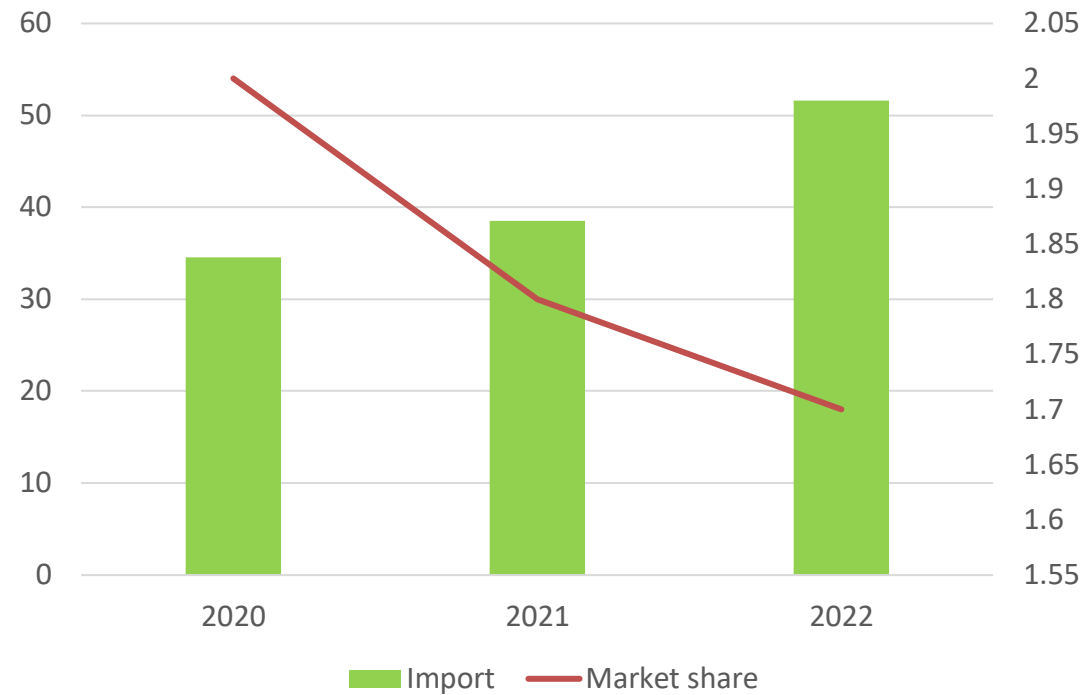
Trade relations between Vietnam and EU

Trade Turnover between Vietnam and EU



Source: General Department of Customs Unit: Billion USD

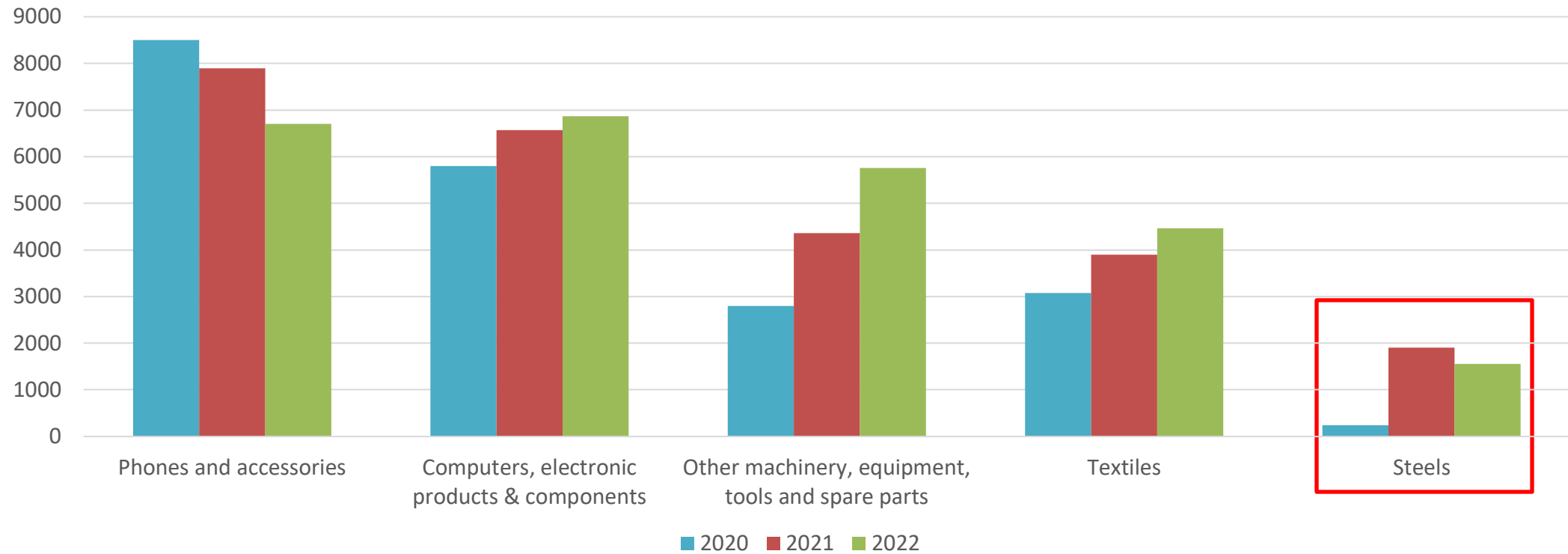
EU import from Vietnam



Source: Eurostat Unit: Billion Euro

Trade relations between Vietnam and EU

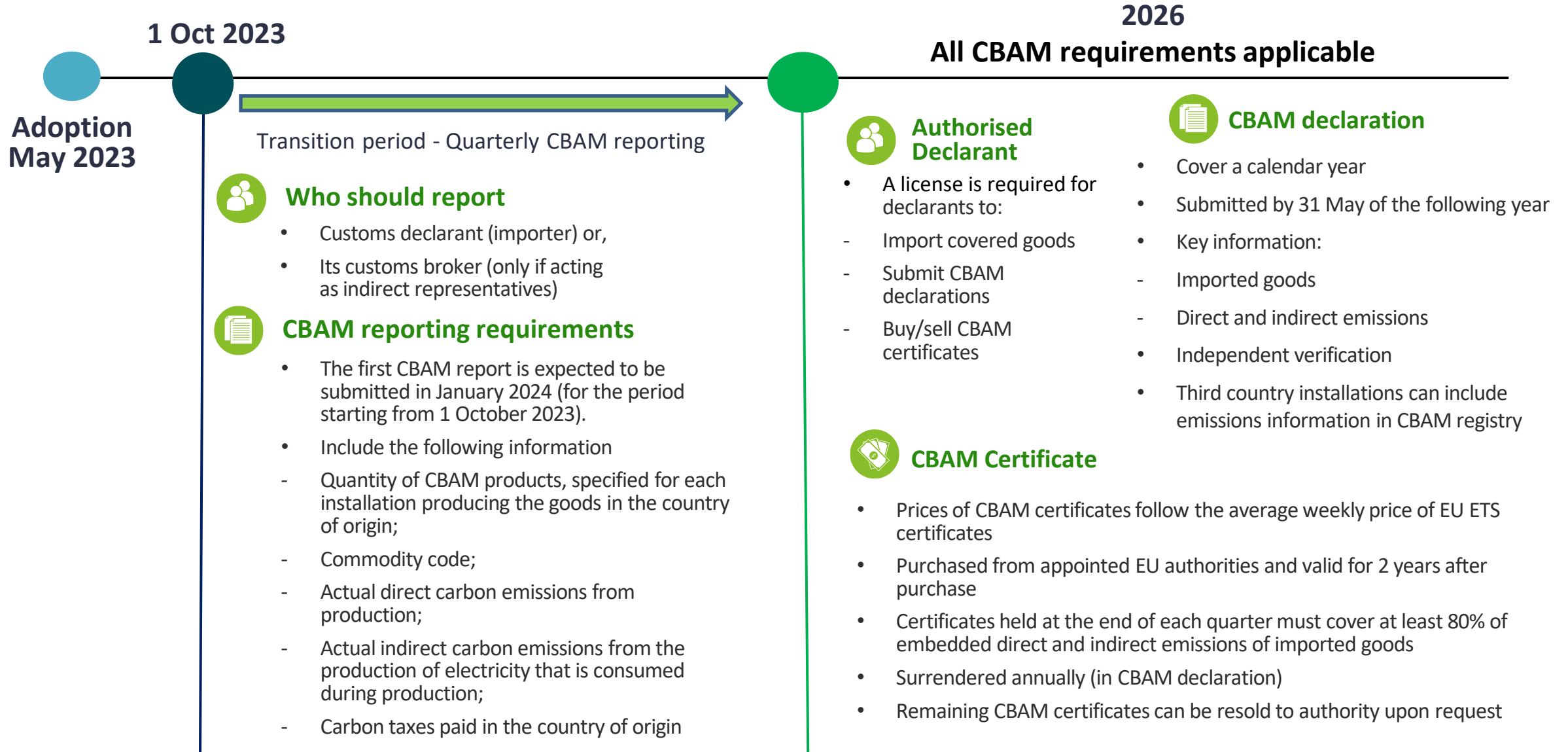
Main export products from Vietnam to EU



Source: General Department of Customs Unit: Million USD

Reporting under CBAM requirements

Implication progress summary



Reporting under CBAM requirements

Starting 1 October 2023

What are the requirements for EU importers?

Gather import data for the quarter concerned

Calculate quantities (net weight) of CBAM goods

Assess availability of production site information

Gather production site information

Reach out to suppliers/production sites for emissions data

Allocate emissions data and prepare report/
complement with default values

Required actions to become CBAM-ready

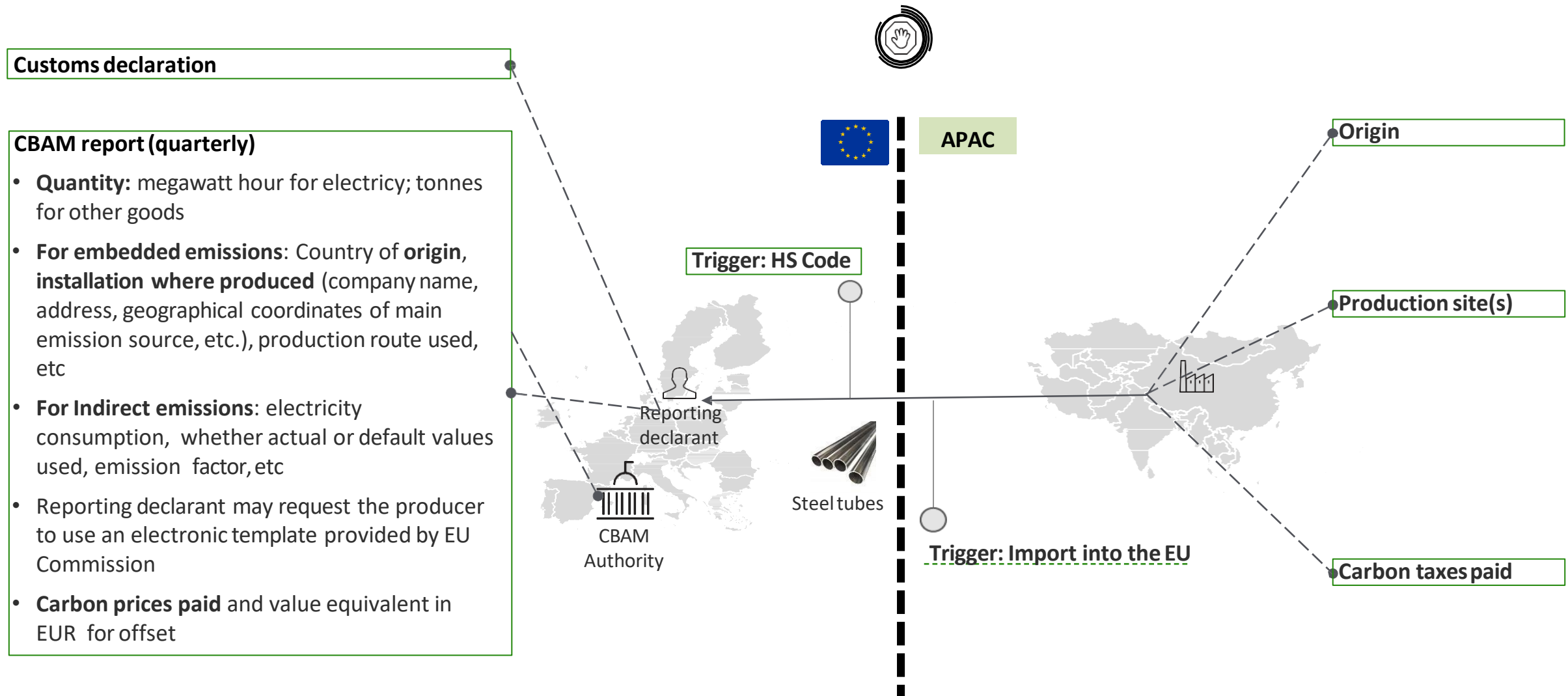
- Analyzing **relevance of EU market** for the business
- Analyzing and possibly altering the **role in the supply chain**
- Having a clear **view on emissions**: how to capture required data
- Being **CBAM compliant**: in case of direct imports the local customs representative will be liable and may reject to serve/require extensive information. Alternatively, the customer will require data
- Setting up a procedure to communicate promptly and efficiently: to allow importers and indirect customs representatives to fulfil their reporting obligations
- Longer term: business case for diminishing emissions?



Are you the EU importer of record?

Reporting under CBAM requirements

Example



Reporting under CBAM requirements

Penalties - Starting 1 October 2023

- (a) Where the reporting declarant has not taken the necessary steps to comply with the obligation to submit a CBAM report, or
- (b) Where CBAM report is incorrect or incomplete, and the reporting declarant has not taken the necessary steps to correct CBAM report where the competent authority initiated a correction procedure, penalties will be applied

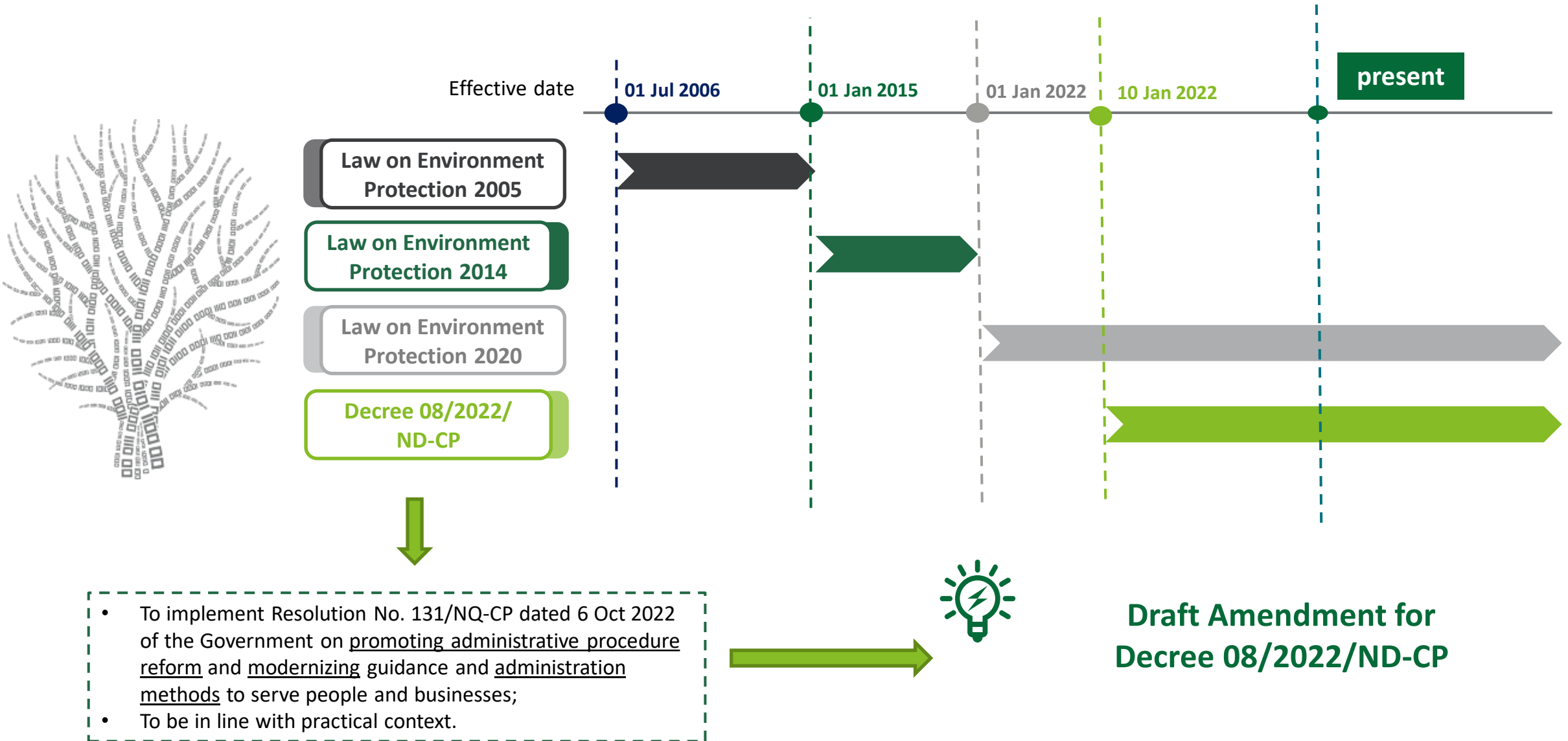
The amount of the penalty will be **between EUR 10 and EUR 50 per tonne of unreported emissions**. When determining the actual amount of a penalty, the extent of the errors and the behavior of the declarant (negligence or intentional non-compliance versus good faith and cooperation) will be taken into consideration



Higher penalties can be applied when more than two incomplete or incorrect reports have been submitted in a row or the duration of the failure to report exceeds 6 months

Vietnam's Proposed amendments to EPR regulations under draft Environmental Protection decree to amend Decree 08/2022/ND-CP

Policy-making context



Draft amendment for Environmental Protection Decree 08/2022/ND-CP



Reduce subjects required to carry out environmental impact assessment (“EIA”) and granted environmental permits

- Adjust the name type of production in electronic components and equipment:
 - only applies to projects with one of the polluting stages;
 - clearly stipulate the unit of quantity applicable to the production of electrical components, volume applied and increased capacity compared to current regulations
- Supplementing regulations on the lower limit/ minimum scale for land usage purposes conversion and exploitation serving production, business and service activities; etc.



Promote decentralization of power to localities in appraising EIA reports and granting environmental permits for some business activities

Environmentally sensitive factors: project discharges wastewater into domestic water supply sources without connection to the centralized wastewater treatment system
=> **Supplementing regulations on requirements for wastewater treatment systems.**

Consultation during EIA: Supplement consultation via written minutes

Updates on procedures and dossier for environmental permits and registration



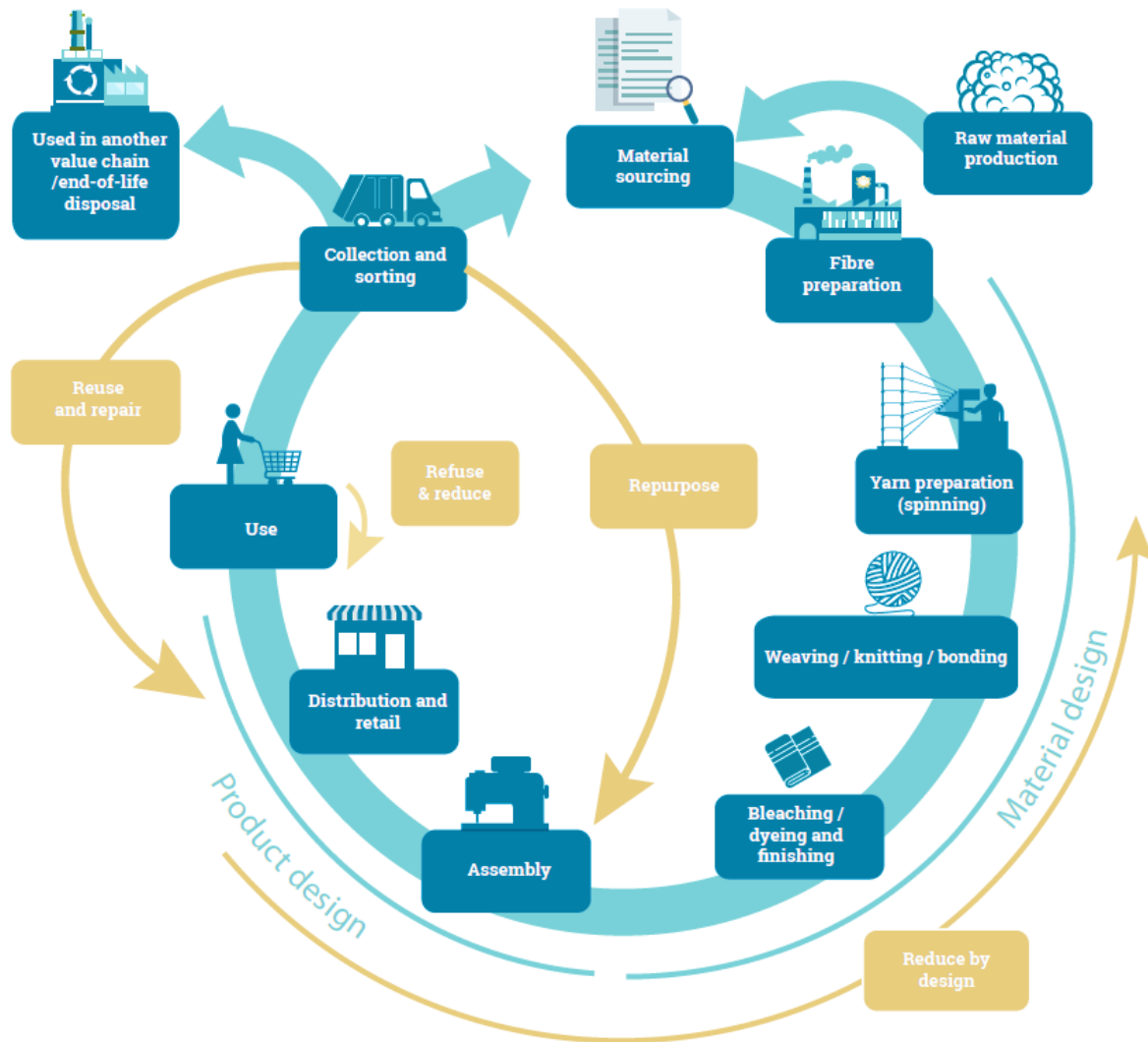
Regulations on EPR

- Amend regulations for objects responsible for recycling; the required recycling rate is based on product volume and product packaging exports and imports to the market;
- Simplify regulations on recycling specifications
- Clarify the followings:

- responsibilities of manufacturers and importers in registering and reporting recycling results;*
- ensure the rights of manufacturers and importers to include recycling costs as deductible expenses for CIT purposes;*
- responsibilities of recycling unit, thereby ensuring transparency*

How to comply with the CBAM and Vietnam's new EPR regulations

Towards a sustainable and circular value chain



- ➡ Product can be used for a long time, recycled, repaired, reused and has complete information.
- ➡ Input raw materials have clear and environmentally friendly origins and are traceable.
- ➡ Efficient production process, optimizes energy use, limits greenhouse gas emissions and other impacts.
- ➡ The business management system is designed to accurately monitor, control, record and report information.
- ➡ The value chain connects, supports optimization and realizes sustainable development goals.
- ➡ Enterprises' operations are honest, transparent, ethical and responsible.

Source: [UNEP](#)

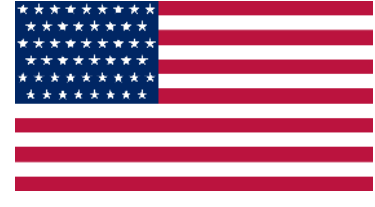
Requirements for sustainable development information on financial reports



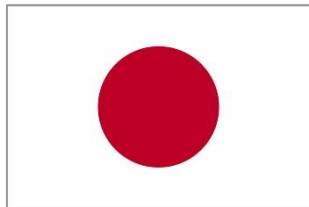
Circular 96/2020/TT-BTC guidance on information disclosure for certain target groups, including content on environmental and social impacts



The set of "**European Sustainable Reporting Standards**" (ESRS) takes effect from January 1, 2024



Draft "**Enhancing and Standardizing the explanation of Climate-related information for investors**" (March 21, 2022)



All listed businesses must disclose mandatory Sustainable Development information from 2023. New standards are expected to be issued by SSBJ in 2025.



Encourage and guide the disclosure of Sustainable Development information for listed enterprises, expected to be mandatory from 2025 onwards.



IFRS S1 (General Requirements for Financial Disclosures Related to Sustainable Development) and **IFRS S2 (Climate Related Disclosures)** effective from 1 January 2024

Operational impact

Reporting

Good and integrated reporting with value chain partners (in line with ESG reporting from key suppliers and clients) ensures you pass the audits and avoid high import levies for your company and your suppliers

Sustainable Strategy

Developing a sustainable product offering by strategically evaluating where to invest in this carbon constrained world, will be key to improving the GHG footprint of your products, and thereby enable development of sustainable products with a green premium.

Finance - CFO

The willingness to pay for green premiums needs to be quantified and incorporated in pricing. This can lead to a differentiated product offering based on products with varying carbon intensity.

Supply Chain

Supplier landscape needs to be reevaluated to assess the potential commercial impacts on product portfolio.

Key takeaways

Calculating and reporting emissions
Ensure compliance with CBAM regulation

Identifying key segments willing to Pay for sustainable materials
Pricing strategy with embedded premium depending on segment

Develop a clear price setting strategy to include CBAM impact into product pricing

How will CBAM affect the current supplier landscape from a commercial risk and security of supply perspective?

How will CBAM impact your work

Tax manager
A new legal framework will need to be taken into consideration when analyzing the overall compliance of the company

CEO (strategy and sustainability)
Developing a sustainable product offering will enable you to charge a green premium, creating additional revenues which would otherwise go towards a levy, and can be leveraged to further decarbonize production

CFO (pricing and finance)
Developing a differentiated product offering with varying prices depending on the carbon intensity of your product enables you to profit from your sustainability efforts

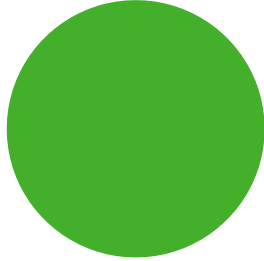
Procurement and Supply chain
Screening the carbon footprint of sourced materials and engaging with suppliers will become a key activity when sourcing outside of the EU

Operational data

Implications	Business Challenge	Technology & Data Challenge
Introducing a new role and responsibility as data provider	Recognizing as a business the overall expectations. Mobilize the right teams with the right skills in your organization	Data Governance and Strategy, Talent Management
Emerging needs and requirements to meet regulatory demands	Obtaining the right understanding about the reporting and business requirements	Data Governance, Insights Generation, Data Provisioning, Data Architecture
Providing right information at the right time	Managing the necessary data on a timely manner	Data Storage, Data Provisioning, Data Governance, Technology Enablement
Ensuring data is accurate, complete, consistent and valid	Monitoring the quality of data. Enhance quality by defining the data quality rules	Data Quality
Collecting volumes of data	Securing and externally providing the data	Data Provisioning, Technology Enablement, Data Architecture, and data availability

Enabling data-driven decision making through dashboards

The data you gather to help your clients comply, should be leveraged to gain strategic insights and benefit your business



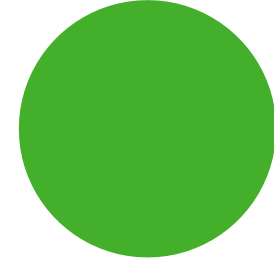
Quarterly CBAM Reports

Share data enabling EU-importers to prepare and submit quarterly CBAM reports (during the transition period)



Optimization and evolution dashboards

- Collect insights for optimization
 1. Lower the carbon footprint
 2. Increase competitiveness
 3. Support in the development a sustainable product offering
- Take informed decisions
- Follow up on your evolution



Data Quality dashboards

Measure and monitor the quality of data. Take actions to increase the data quality

The background consists of a golden scale of justice at the top, with its pans and beams. Below it, there are various blue and teal geometric shapes, including circles and polygons, some of which are semi-transparent and layered. The overall aesthetic is clean and professional.

Discussion

Co-hosted Chambers/Associations





Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which is a separate and independent legal entity, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Bengaluru, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Mumbai, New Delhi, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

About Deloitte Vietnam

In Vietnam, services are provided by separate and independent legal entities, each of which may be referred to or known as Deloitte Vietnam.

This document has been prepared by Deloitte Vietnam Tax Advisory Company Limited for the sole purpose of providing a proposal to the parties to whom it is addressed in order that they may evaluate the capabilities of Deloitte Vietnam Tax Advisory Company Limited to supply the proposed services.

The information contained in this document has been compiled by Deloitte Vietnam Tax Advisory Company Limited and includes material which may have been obtained from information provided by various sources and discussions with management but has not been verified or audited. This document also contains confidential material proprietary to Deloitte Vietnam Tax Advisory Company Limited. Except in the general context of evaluating our capabilities, no reliance may be placed for any purposes whatsoever on the contents of this document or on its completeness. No representation or warranty, express or implied, is given and no responsibility or liability is or will be accepted by or on behalf of Deloitte Vietnam Tax Advisory Company Limited or by any of its partners, members, employees, agents or any other person as to the accuracy, completeness or correctness of the information contained in this document or any other oral information made available and any such liability is expressly disclaimed.

This document and its contents are confidential and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person in whole or in part without our prior written consent.

This document is not an offer and is not intended to be contractually binding. Should this proposal be acceptable to you, and following the conclusion of our internal acceptance procedures, we would be pleased to discuss terms and conditions with you prior to our appointment.