

## **EFET response to EU Commission consultation on the carbon border adjustment mechanism (CBAM)**

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**5 November 2021**

The European Federation of Energy Traders (EFET<sup>1</sup>) welcomes the opportunity to provide our comments to the Commission consultation on strengthening the carbon border adjustment mechanism (CBAM).<sup>2</sup>

We believe that the CBAM should be linked with the EU ETS by way of matching the price of import certificates with the price of emission allowances. This design option will allow the CBAM to deliver on its main goal – ensuring that the price of imports reflects more accurately their carbon content – in an efficient and transparent way, while strengthening the international role of the EU ETS, the world’s largest emissions trading market.

This approach will be in line with the 2030 Climate Target Plan, which foresees a reinforced role for the expanded and refined EU ETS as a key tool for cost-effective greenhouse gas emissions reduction. Introducing a CBAM linked with the EU ETS would therefore ensure full alignment of the CBAM with the existing energy and climate policy framework and carbon pricing in the EU.

In order to ensure the efficient functioning of a CBAM linked with the EU ETS, its design should be based on the following principles:

- A. The introduction of a CBAM in a given sector must entail a gradual phase-out of free allocation in this sector.

This principle is instrumental in delivering on one of the policy objectives of the CBAM - to provide an alternative to free allocation. Using the existing common EU benchmarks, standards and infrastructure designed to limit carbon leakage will help to reduce the administrative complexity of CBAM implementation and ensure its transparency.

- B. A decrease in free allocation should be matched by a corresponding increase in the auctioning share of the EUAs.

Auctioning is the default method of allocating allowances within the EU ETS, which ensures transparency of allowances’ allocation and puts into practice the ‘polluter pays’

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<sup>1</sup> The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information, visit our website at [www.efet.org](http://www.efet.org)

<sup>2</sup> See our previous [EFET response to the Commission’s questionnaire on CBAM](#), October 2020.

principles, without causing market distortions. The Commission's communication on the EU budget powering the recovery plan for Europe<sup>3</sup> recognises the important role of auction revenues generated by the EU ETS in supporting Europe's economic recovery. More specifically, the communication estimates that the EU ETS could generate revenues for the EU budget of about EUR 10 billion, depending on the evolution of the carbon price and the expansion of the system to other sectors.

We have noted the proposal of quarterly obligations on importers (art. 22) that diverges from the compliance requirements under the EU ETS. Given the initial intention of the CBAM to mirror EU ETS provisions, we would urge the Commission to further assess this additional requirement on importers and to maintain it only if a net benefit to the decarbonisation of imports is identified.

On electricity, imports are charged by default values of emissions based on price-setting fossil fuels in the exporting country, and only upon request on lower embedded emissions. This may be appropriate, for instance, when using a PPA or a direct transmission line to the EU grid.

We welcome the fact that countries that are part of or linked to the EU ETS (currently Iceland, Liechtenstein, Norway and Switzerland) are exempted. This should be extended by linking the UK and EU ETS and with the increased integration of the Western Balkans. The advantages of linkage are clear in terms of liquidity, price discovery, and the ability to attract abatement from across a larger area. It would also create a level playing field in terms of carbon pricing, avoiding competitive distortions, and leading to aligned cost implications for industry across the UK and the European Economic Area (EEA). This would be beneficial for international commerce, minimise the risk of carbon leakage, and lower the costs of achieving Net Zero.

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<sup>3</sup> [COM \(2020\) 442 The EU budget powering the recovery plan for Europe](#)