

Making the CBAM more ambitious and complete

A Eurelectric reaction paper to the CBAM proposal of
the Fit for 55 Package

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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KEY MESSAGES

- **Base default values on 10% worst performers.** The Commission's proposal to use default values based on average CO₂ emissions of the price-setting source might not be sufficiently penalising if this source is not a worst performer. Instead, specific default values should be based on the 10 per cent of worst performers from the exporting country or its exporting sub-region from the outset, which would incentivise electricity exporters to provide actual data in order to lower the CBAM charge incurred.
- **Account for indirect CO₂ emissions in simple and complex goods.** The fact that indirect CO₂ emissions in simple and complex goods are not accounted for incentivises the imports of goods produced with CO₂-intensive electricity sources, which can create significant risks for the environmental integrity of the fit-for-55 package, as well as competitive distortions between EU producers and third countries. Through close cooperation with Eurelectric and others, data on indirect CO₂ emissions present in complex goods imports could hopefully be properly accounted for and charged once the CBAM fully enters into force.
- **Avoid double protection.** For sectors where a CBAM is in place, free allocation should be removed. We therefore welcome the Commission proposal to phase out free allowances for CBAM sectors in this regard. The current CBAM design however does not provide coverage to the EU's exporting sectors, which we hope can be addressed in some shape or form.
- **Include hydrogen imports into the CBAM.** Though hydrogen imports are currently limited, it is anticipated that this will increase significantly in the near future. For hydrogen and its derivatives (e.g. ammonia) that are imported, the EU should ensure that this is as decarbonised as possible. We propose to include hydrogen and its derivative sectors in the first CBAM design, both their direct and indirect emissions. This should be coordinated with the introduction of a harmonised certification system that can distinguish different forms of hydrogen.
- **Manage administrative complexity for importers of electricity and EU member states.** To limit administrative complexity for entities/importers of goods that will be included in the CBAM, all provisions should be carefully examined (e.g. the 80% CBAM certificate registry rule) and then simplified as much as possible, which in turn increases the chance of compliance. The possible creation of CBAMs in other parts of the world should also be anticipated and where possible coordinated. Furthermore, standards need to be unified and transparency ensured in the functioning of the CBAM to not create excessive administrative burdens for the Member States.

Making the CBAM more ambitious and complete

Eurelectric and its members see the Green Deal and the Fit for 55 Package as a social, industrial, and strategic opportunity for all Europeans. Our sector therefore explicitly endorses this acceleration, and in that context welcomes the proposal on the carbon border adjustment mechanism (CBAM). This will be crucial to complement the EU Emissions Trading System (EU ETS) as an effective instrument for delivering significant GHG reduction across Europe, while at the same time encouraging third countries to become more climate friendly, and reduce carbon leakage risks for ETS-related industries. Our reaction to the CBAM proposal builds on [Eurelectric's May 2020 position paper on the CBAM](#), as well as other inputs, and focuses on specific elements of the proposal we applaud and elements where we believe more ambition is needed.

Base default values on 10% worst performers

The European Commission proposes to use default values for determining embedded emissions of imported electricity [Article 7(3)]. Specific default values will be based on the average CO₂ emissions per megawatt-hour of price-setting sources in the third country, and only if that cannot be determined will the Commission make use of more punitive, alternative default values that are based on the CO₂ intensity of electricity from fossil fuels in the EU. The issue with this specific default value approach is that there might not be a “price-setting” source like is the case in the EU. If a price-setting source is available, it might not be a worst performer, and it might not be subject to actual carbon costs. Furthermore, basing alternative default values on fossil fuel electricity in the EU might underestimate the actual worst performers in third countries. Instead, Eurelectric proposes to base specific default values on the 10 per cent worst performing installations of the exporting country or its exporting sub-region from the outset. Electricity exports that perform better than the 10% worst performers will have a financial incentive to provide actual data to the Commission, as providing actual data would lower the CBAM charge incurred. The Commission should allow electricity exporters to prove that they are better than the default value.

Account for indirect CO₂ emissions in simple and complex goods

Eurelectric is concerned with the proposed calculation of embedded emissions for simple and complex goods (Article 7 & Annex III). Once the CBAM fully enters into force and has financial implications as of 1 January 2026, the proposal states that the CBAM will only apply to direct CO₂ emissions, while indirect emissions from the electricity that went into the production of these goods are not accounted for. This means that a potentially significant share of actual emissions embedded in goods imports is not subject to a CBAM charge. This would put at risk the environmental integrity of the fit-for-55 package and create significant risks for competitive distortions between EU producers and third countries, putting less pressure on third countries to become more climate friendly and decarbonise their power sector. Though adding indirect emissions should not make the CBAM unworkable, leaving them out of the scope may have very negative effects, so a balanced methodology is required.

The final decision by the European Commission on whether or not to include indirect emissions in the calculation will be made during the 2023–2025 transitional phase, subject to the Commission’s ability to collect sufficient data. In that regard, we urge EU policymakers to work closely together with Eurelectric and other stakeholders on how to make sure that data on indirect CO₂ emissions present in simple and complex goods imports are properly accounted for and charged once the CBAM fully enters into force. For example, just as with its use of default values for direct emissions, the Commission could make use of punitive, default values based on the 10% worst performers in situations

where data on indirect CO₂ emissions cannot be properly retrieved from the exporting country.

Avoid double protection

Eurelectric believes that though carbon leakage risks need to be addressed properly, the introduction of an effective and well-functioning CBAM should not lead to double protection. As stated in our [February 2021 consultation input to the EU ETS reform](#), for sectors where a CBAM is in place, free allocation should be removed. We therefore welcome the Commission proposal to phase out free allowances for CBAM sectors in this regard. However, we note that the CBAM currently does not provide coverage of the EU's exporting sectors and would like to ask policymakers to try and include provisions for this into the CBAM or EU ETS in some shape or form.

Include hydrogen and derivative imports into the CBAM

As argued in [Eurelectric's June 2021 consultation input on the Hydrogen and Gas Decarbonisation Package](#), we believe the EU should avoid becoming excessively reliant on imports of hydrogen and its derivatives (e.g. ammonia) given that hydrogen will be obtained from renewable sources within the EU in a cost-efficient way. For the hydrogen that is imported, the EU should ensure that it is as decarbonised as possible. Importing grey hydrogen (based on fossil fuels) to meet the EU's demand would put the objectives of the fit-for-55 package and EU Green Deal at significant risk. Not charging the same carbon costs on imported hydrogen through the CBAM would also create significant competitive distortions between domestic producers and producers from neighbouring third countries. Eurelectric therefore proposes to include the hydrogen sector in the first CBAM design. The European Commission in table 7-2 of the CBAM's impact assessment states that hydrogen is currently not included as it is not much traded, but this may change in the near future and the CBAM must be prepared for this. The inclusion of hydrogen and its derivatives under the CBAM should go hand in hand with the introduction of a harmonised certification system to distinguish different forms of hydrogen, and so should be closely coordinated with the revision of the Renewable Energy Directive and the upcoming Hydrogen and decarbonised gas market package. Both direct and indirect emissions should be taken into account in the CBAM and the certification system, as the electricity mix used to make hydrogen and its derivatives can be highly CO₂-intensive.

Manage administrative complexity for importers of electricity and EU member states

With the introduction of the CBAM, it is obvious that the administrative complexity will increase for entities and importers of goods that will be included in the mechanism. This includes entities who have been allocated transmission capacity through explicit capacity allocation and who nominate this capacity for electricity imports. The proposed provisions might increase the administrative burden on those entities, some already during the transitional period until the end of 2025. For example, Article 22 stipulates that importers of electricity and goods are obliged to hold on their accounts at the end of each quarter a number of CBAM certificates that correspond to at least 80 percent of embedded emissions. The provision is inconsistent with the compliance obligation imposed on the installations under the EU ETS, which are not required to do so; they must only surrender the correct amount of allowances by 30 April each year, with no constraint on the number of allowances held each quarter. We therefore call on policymakers to carefully design the CBAM's administrative commitments with a view to maximising their consistency and simplification, which would in turn increase the chances of compliance.

Special attention should also be paid to the situation for EU member states, who will be responsible for authorising declarants, reviewing and verifying declarations, and selling CBAM certificates to importers. The Commission will act as a central administrator. However, the CBAM should be serviced at the EU level, which will unify standards and ensure transparency in its functioning to not create excessive administrative burdens for the Member States

Furthermore, collaboration with other regions in the world that are thinking about creating their own CBAM system should be anticipated and where possible coordinated.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability



Union of the Electricity Industry – Eurelectric aisbl
Boulevard de l'Impératrice, 66 – bte 2 – 1000 Brussels, Belgium
Tel: + 32 2 515 10 00 – VAT: BE 0462 679 112 • www.eurelectric.org
EU Transparency Register number: [4271427696-87](https://ec.europa.eu/transparency/regexpert/?s=details&id=4271427696-87)