



Proposal for a Carbon Border Adjustment Mechanism (CBAM)

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Why Electricity?

- High risk of carbon leakage from third countries
- Most relevant sector as regards the amount of emissions; no free CO2 allowances
- CBAM will overall reduce CO2 emissions as high-emissions electricity imports will be replaced by electricity generated in the EU from renewable and less-emitting sources
- CBAM will apply to the import inflows not to net imports from non-ETS countries (between 22 and 33 TWh on average from 2016-201). Those numbers can importantly grow in the future with increase RES and more flexibility needed in the system, including imports

CBAM for Electricity

- Recitals §47-49, Article 2 §7-12, Article 5 §2, Annex II and Annex III §5
- CBAM for electricity applicable to all non-EU countries trading/physically connected with EU Member States
 - Annex II § 1: Norway and Switzerland outside scope (part of EU ETS and/or linking agreement with EU ETS)
 - Annex II § 2 and Article 2 §7: if not technically feasible, non-EU countries applying market coupling (CACM Regulation (EU) 2015/1222) outside scope if they meet **all the conditions (a) to (f)** in Article 2 §7

→ Transition phase until end 2025; **application as of 2026**

Article 2 §7: derogation conditions




- a) Agreement with the Union in the field of electricity – RES, energy, environment and competition
- b) Implementation at national level – RES and market coupling
- c) Adoption of a decarbonisation roadmap
- d) Commitment to climate-neutrality by 2050
- e) Progress in the field of climate action on the basis of the roadmap
- f) Effective systems to prevent indirect import of electricity not meeting those requirements

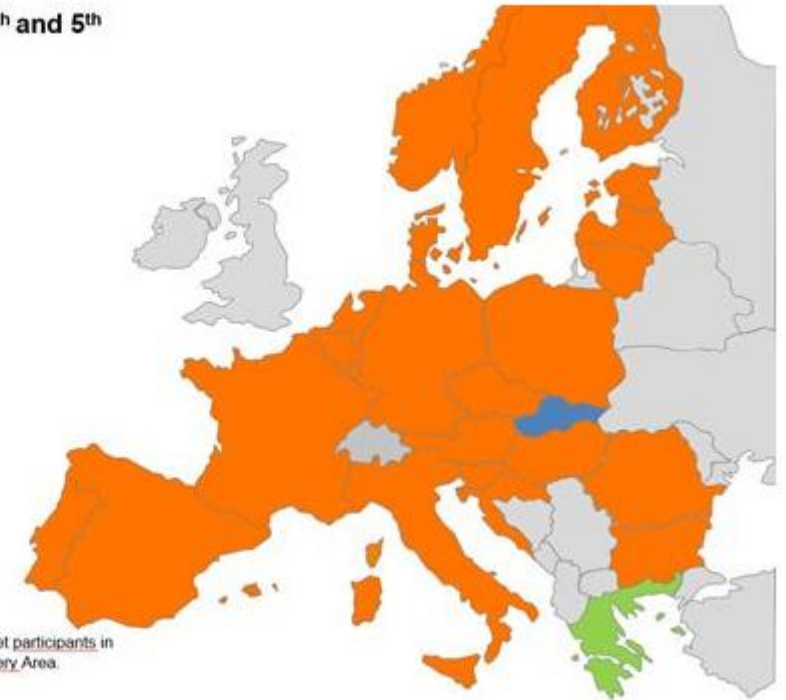
→ **By 1 January 2030: implementation of an emission trading system for electricity** – with a price equivalent to the EU ETS

Article 2 §7: market coupling

- **Why?** Not possible to trace imports to specific countries/assets with **implicit cross-border capacity auctions** (market coupling) >< **explicit cross-border capacity auctions** (Article 5 §2 – hourly CBAM application)
- **Scope?** Energy Community Contracting Parties; November Ministerial Council – adoption of a Decarbonisation Roadmap and integration of the Clean Energy Package into the Energy Community acquis

Countries coupled Intraday with 4th and 5th SIDC Go-Live

-  Countries coupled in 1st, 2nd and 3rd go-live
-  Country to be coupled in 4th go-live (TBD)
-  Country to be coupled in 5th go-live (end 2022)



Note: Luxembourg is part of the Amprion Delivery Area. Market participants in Luxembourg have access to SIDC through the Amprion Delivery Area.

Article 2 §8-12

- Delegated Act to add/remove non-EU countries in Annex II §2 if they meet all conditions
 - Two progress reports: 1 July 2025 and 1 July 2029
 - Removal if (1) no sufficient progress and (2) if steps taken contrary to its decarbonisation objectives such as public support to new generation capacity that emits more than 550g of CO₂ (Article 22 §4 of the Electricity Regulation (EU) 2019/943)
- **In such case, no more market coupling/implicit auctions and CBAM application to explicit auctions**

Annex III §5 – embedded emissions

Conditions to apply actual embedded emissions in electricity:

- a) Power Purchase Agreement with a producer of electricity located in the third country
- b) Direct physical connection to EU transmission grid or no physical network congestion at any point
- c) Firm nomination of cross-border transmission capacity (explicitly auctions)
- d) All above criteria to be certified by an accredited verifier (monthly interim reports)

→ **Guarantees of Origins (GOOs) are out of scope !!**

Thank you



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