

## EFET response to the Commission's public consultation on a Carbon Border Adjustment Mechanism

05 October 2020

The European Federation of Energy Traders (EFET)<sup>1</sup> welcomes the opportunity to contribute to the Commission's public consultation on a Carbon Border Adjustment Mechanism (CBAM).

We welcome the Commission's intention to ensure *"the complementarity of the measure with internal carbon pricing, in particular the EU ETS,"*<sup>2</sup> and that the prospective CBAM is *"commensurate with the internal EU carbon price."*<sup>3</sup>

**We believe that the CBAM should be integrated with the EU ETS by way of expanding the EU ETS to cover imports into the EU.** 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 integrated with the EU ETS would therefore ensure

- A) Full alignment of the CBAM with the existing energy and climate policy framework and carbon pricing in the EU;
- B) Ease of implementation of CBAM by way of using the existing EU ETS infrastructure;
- C) Transparency and a level playing field when it comes to the price of carbon paid by importers and EU producers respectively.

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

**A) Introduction of a CBAM in a given sector must entail gradual phase out of free allocation in this sector.**

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

**B) A decrease in free allocation should be matched with the corresponding increase in the auctioning share of the EUAs.**

---

<sup>1</sup> The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. 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: [www.efet.org](http://www.efet.org).

<sup>2</sup> Inception Impact Assessment for a Carbon Border Adjustment Mechanism, European Commission, p.2

<sup>3</sup> Ibid.

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' principles without causing market distortions.

An increase in the auctioning share of the EUAs and the potential expansion of the EU ETS would allow boosting the financing of clean energy innovation across the sectors covered by the EU ETS and beyond. The Commission's communication on the EU budget powering the recovery plan for Europe recognises the important role of auction revenues generated by the EU ETS in supporting Europe's economic recovery.<sup>4</sup> 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.<sup>5</sup>

Introducing a CBAM integrated with the EU ETS would ultimately incentivise closer alignment between carbon abatement measures and climate policy instruments outside the EU and the EU ETS, including potential establishment of emissions trading systems at national and at regional level outside the EU and their prospective linking with the EU ETS. This approach would support the **expansion of carbon trading both within Europe and internationally, which constitutes the most efficient solution to address carbon leakage and to reduce global CO2 emissions cost-effectively.**

In this context, a CBAM integrated with the EU ETS could also give an impetus to the ongoing work carried out at international level on Article 6 of the Paris Agreement - which provides for the use of international carbon markets for achieving the emissions reduction targets set by the Parties - one of the key topics on the agenda of the upcoming COP26.

---

<sup>4</sup> See the Commission's communication on the EU budget powering the recovery plan for Europe COM (2020) 442, p.15

<sup>5</sup> Ibid.