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UFE's reply to the EC call for evidence CBAM - Methodology for the definitive period

UFE supports the principle underlying the Carbon Border Adjustment Mechanism (CBAM), which aims to preserve the competitiveness of European industry and prevent carbon leakage, in a context of increased climate ambition at European level. In this mechanism, the emission factor represents the carbon content in the price of electricity. The method for calculating emission factors must better reflect the impact of the CO2 price on the electricity price and the impact of real CO2 emissions on the electricity production. It is calculated in two ways according to a methodology defined in the Emissions Trading Scheme (ETS) State aid Guidelines:

By default, it is the result of " the division of the CO2 equivalent emission data of the energy industry divided by the gross electricity generation based on fossil fuels in TWh" in the relevant geographic area. This method has several limitations:

- On the one hand, it focuses on the volume of electricity produced by the fossil capacities of a mix (even if this is not marginal). However, the final price paid by industries is the key factor, and it is marginal technology that determines this price;
- On the other hand, it tends to overlook the fact that the coupling of European markets leads to a common electricity price for all interconnected countries as long as the interconnection capacities are not saturated.

The default method thus leads to differentiated emission factors and subsidies between European countries that do not accurately reflect the real levels of CO2 emissions in electricity production and the relative cost increase of the ETS in wholesale electricity prices.

The guidelines also provide for the possibility for Member States to make a counterproposal after negotiation with the European Commission with a market-based emission factor: this is established on the basis of "a study of the CO2 content of the actual margin setting technology in the electricity market."

A default CBAM emission factor is essential for the electricity sector, as the vast majority of cross-border trades takes place via the wholesale market with no visibility on emitters, but it is not yet known for the compliance period.

A more granular methodology (close to real time) would better reflect the production cycle of electricity, avoiding as far as possible an overestimation of carbon emissions for importers and ensuring a level playing field for them.

UFE calls on the European Commission to consider the possibility of improving the methods for calculating the emission factor in order to better reflect the impact of real CO2 emissions in electricity as well as the additional cost related to the ETS paid by consumers in wholesale electricity prices. This would entail:

- **Updating the methodology for calculating the default emission factor**, identifying the optimal CBAM levy to apply on an hourly basis. If the carbon intensity of electricity imports into the EU reflected the hourly or daily production mix in the third country, this would help to ensure a cleaner electricity supply into the EU.
- **Using publicly available data from third party sources as the basis for the default emission factor methodology**: although it may be difficult to identify the carbon content of the grid for each hour, certain sources (i.e. TSO data) can serve as useful proxies. For Example, in the UK, NESO publishes both forecasted and actual carbon intensity of the grid with hourly granularity.