

ENTSO-E position on the revision of the Carbon Border Adjustment Mechanism

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From: Market Committee

ENTSO-E Mission Statement

Who we are

ENTSO-E, the European Network of Transmission System Operators for Electricity, is the association for the cooperation of the European transmission system operators (TSOs). The 40 member TSOs, representing 36 countries, are responsible for the secure and coordinated operation of Europe's electricity system, the largest interconnected electrical grid in the world. In addition to its core, historical role in technical cooperation, ENTSO-E is also the common voice of TSOs.

ENTSO-E brings together the unique expertise of TSOs for the benefit of European citizens by keeping the lights on, enabling the energy transition, and promoting the completion and optimal functioning of the internal electricity market, including via the fulfilment of the mandates given to ENTSO-E based on EU legislation.

Our mission

ENTSO-E and its members, as the European TSO community, fulfil a common mission: Ensuring the security of the inter-connected power system in all time frames at pan-European level and the optimal functioning and development of the European interconnected electricity markets, while enabling the integration of electricity generated from renewable energy sources and of emerging technologies.

Our vision

ENTSO-E plays a central role in enabling Europe to become the first climate-neutral continent by 2050 by creating a system that is secure, sustainable and affordable, and that integrates the expected amount of renewable energy, thereby offering an essential contribution to the European Green Deal. This endeavour requires sector integration and close cooperation among all actors.

Europe is moving towards a sustainable, digitalised, integrated and electrified energy system with a combination of centralised and distributed resources. ENTSO-E acts to ensure that this energy system keeps consumers at its centre and is operated and developed with climate objectives and social welfare in mind.

ENTSO-E is committed to use its unique expertise and system-wide view – supported by a responsibility to maintain the system's security – to deliver a comprehensive roadmap of how a climate-neutral Europe looks.

Our values

ENTSO-E acts in solidarity as a community of TSOs united by a shared responsibility.

As the professional association of independent and neutral regulated entities acting under a clear legal mandate, ENTSO-E serves the interests of society by optimising social welfare in its dimensions of safety, economy, environment, and performance.

ENTSO-E is committed to working with the highest technical rigour as well as developing sustainable and innovative responses to prepare for the future and overcoming the challenges of keeping the power system secure in a climate-neutral Europe. In all its activities, ENTSO-E acts with transparency and in a trustworthy dialogue with legislative and regulatory decision makers and stakeholders.

Our contributions

ENTSO-E supports the cooperation among its members at European and regional levels. Over the past decades, TSOs have undertaken initiatives to increase their cooperation in network planning, operation and market integration, thereby successfully contributing to meeting EU climate and energy targets.

To carry out its legally mandated tasks, ENTSO-E's key responsibilities include the following:

- › Development and implementation of standards, network codes, platforms and tools to ensure secure system and market operation as well as integration of renewable energy;
- › Assessment of the adequacy of the system in different timeframes;
- › Coordination of the planning and development of infrastructures at the European level (Ten-Year Network Development Plans, TYNDPs);
- › Coordination of research, development and innovation activities of TSOs;
- › Development of platforms to enable the transparent sharing of data with market participants.

ENTSO-E supports its members in the implementation and monitoring of the agreed common rules.

INTRODUCTION

Climate change is a global problem that needs global solutions. As the EU raises its own climate ambitions, and as long as less stringent climate policies prevail in many non-EU countries, there is a risk of so-called 'carbon leakage'. With its Carbon Border Adjustment Mechanism (CBAM), the European Commission wants to avoid carbon leakage, which occurs when companies based in the EU move carbon-intensive production to countries with less stringent climate policies, or when EU products get replaced by more carbon-intensive imports.

The European Commission presented the proposal for a Regulation establishing a Carbon Border Adjustment Mechanism (CBAM) in May 2021. The aim was to put a fair price on the carbon emitted during the production of carbon intensive goods originating in a third country that are entering the customs territory of the Union, and to encourage cleaner industrial production in non-EU countries. By confirming that a price has been paid for the embedded carbon emissions generated in the production of certain goods imported into the customs territory of the Union, the CBAM will ensure the carbon price of imports is equivalent to the carbon price of domestic (European) production, and that the EU's climate objectives are not undermined. The Regulation (EU) 2023/956 establishing CBAM was adopted by the European Parliament and the Council in April 2023, and entered into force in May 2023.

ENTSO-E supports the general principles of CBAM to mitigate carbon leakage and aid in reaching the EU carbon neutrality targets. There are however still many questions and concerns that would jeopardize the current reporting obligations of the transitional period as well as the full implementation as of 1 January 2026 on electricity. TSOs adjacent to EU external borders are the most exposed to the concerns raised in this paper. It concerns a significant number of ENTSO-E members, almost one third of the EU members of the association.

I. MAIN CONCERNS

While the CBAM Regulation seeks to address legitimate concerns, ENTSO-E members are concerned that the measures put in place may in some specific cases create unnecessary administrative burdens for TSOs compared with the actual risk of carbon leakage, lead to efficiency losses, reduce EU competitiveness and reduce incentives for building/connecting offshore wind.

1. CBAM does not provide a sufficiently clear method for reporting import and computing the embedded CO2 intensity.

Electricity is not a commodity good like any other in the sense that it cannot be physically presented to the Customs authorities, nor can it be exactly traced back to the source of production. The current CBAM Regulation does not provide a sufficiently clear method for reporting import and computing the embedded CO2 intensity, leading to legal uncertainty and potential noncompliance risks. Moreover, CBAM today only assumes that electricity is traded with third countries through explicit allocation, not taking into account already implemented, or possible evolution to, implicit trading.

Like implicit electricity trading within the internal electricity market, there is no nomination on the interconnectors, only anonymous trading between markets.

Current CBAM parameters create obstacles for importing electricity from third countries to protect EU generation subject to CO₂ emission costs from non-EU generation not subject to these costs. These obstacles to importing electricity from third countries could contradict the goal of efficiently importing cheap green electricity into the EU if applied also to third countries with robust decarbonisation policies and renewable energy sources. The current criteria to calculate the actual emissions embedded in electricity production make it impossible for importers to implement, mainly due to impossibility to trace the origin of the electricity.

In addition, the current default values are based upon the carbon intensity that represent the 5-year average CO₂ emission factors covering the years 2016 to 2020, even though third countries made tremendous efforts in decarbonising their energy mix in the past 2-3 years¹. In that regard, CBAM taxes historical instead of actual emissions, which is neither fair nor reflects reality.

In order to create a level playing field, it is important that the data source used to compute the default emission factors are standardized among all declarants. Otherwise, there would be the risk for some market participants to understate or overstate their level of emissions if they would start from different data. A further harmonisation of the EU standards would therefore be needed. An additional challenge will consist in convincing third countries in developing tools and methodologies to measure the carbon intensity of their grid as the EU has no jurisdiction over them.

We therefore suggest that a well-established data-transparency platform showing quasi-to real time carbon data about the system, together with a decarbonised system, would allow a third country to be exempted from CBAM. We therefore ask the European Commission to take into consideration the specificities of the interconnected third countries with the EU grid to allow further exemptions due to the limited risk of carbon leakage.

2. CBAM creates disproportionate administrative burdens and costs for TSOs compared to the minimal risk of carbon leakage related to their activities.

The current formulation of CBAM overlooks exchanges that EU TSOs might have with third countries TSOs to keep the stability of the European electricity system. These exchanges are reserve sharing agreements to keep the grid balanced and Cross-border redispatch and Countertrading in order to solve internal congestions.

The European Commission should take into consideration that TSOs are not energy traders on the market like any other market participant. The risk of carbon leakage through the import of electricity from TSOs to TSOs is minimal compared to the administrative burden and compliance cost CBAM would trigger upon TSOs. Indeed, the related volumes exchanged amongst EU and non-EU TSOs represent only a fraction of the commercial electricity exchanges. Imposing CBAM requirements for regulated TSO activities would therefore not be proportionate to the risk of carbon leakage.

EU TSOs are also part of various cost-sharing mechanisms together with non-EU TSOs. These mechanisms usually do not involve directly importing/exporting of electricity, but rather financial

compensation based on some electricity exchanges. They are often zero-sum game mechanisms (only costs are recovered) and it would be greatly detrimental both to the efficiency of the mechanism and the overall European welfare if they should fall under CBAM.

II. ENTSO-E RECOMMENDATIONS

ENTSO-E recommends exempting TSOs activities from the CBAM scope, considering the minimal risk of carbon leakage as well as the societal role these TSOs activities play in keeping the lights on and ensuring the security of the power system. The CBAM measures should not create disproportionate administrative burdens and costs compared to the actual risk of carbon leakage.

In any case, ENTSO-E recommends conducting an additional impact assessment prior to the definitive period of implementation of CBAM for electricity and to prolong the transition period beyond 1 January 2026 during the time of that assessment. The EC should also assess more in depth the list of third countries eligible for exemption, pending ETS linkage. This additional impact assessment and prolonged transition period would allow all market participants to fully assess and adjust the following aspects of the Implementing Acts that should be published before the end of 2025 by the European Commission:

- Overall, a clear guidance from EC on the respective roles and responsibilities of the several types of market participants (differentiate the role of TSOs from commercial traders);
- Assess what type of support TSOs could provide in the correct implementation of CBAM.
- Contribute to a fair and correct methodology for CO₂ calculation of imported electricity that is implemented in a harmonised and uniform way for all market participants.

III. CONCLUSION AND FURTHER REFLECTIONS

ENTSO-E invites the EC to consider the questions and concerns raised by its members. If the Commission would like to make the CBAM work, it should be able to adjust the mechanism where needed. ENTSO-E is willing to enter into a structural dialogue with EC and electricity stakeholders, to provide expert input where needed to enable qualitative legislation to be put into place.

Some further reflections on the actual time frame towards full implementation pushes ENTSO-E to come to the conclusion that more time is needed to adjust and define the right approach for a fair and efficient application on electricity. Therefore, we invite the EC to envisage such revision that would be in accordance with the delay in implementing acts, which is now only foreseen to be adopted towards the end of 2025. It is impossible for the market to digest these implementing acts as currently still foreseen for entering into force on 1 January 2026. To avoid non-compliance and risk of legal actions, the EC should act consequently and provide sufficient time to implement CBAM on electricity. To that end, ENTSO-E encourages policy

makers to use the targeted revision of CBAM part of the Omnibus simplification package on sustainability to postpone the definitive period as of 1 January 2027. It should also be noted that in its current form, the application of the provisions under CBAM regulation would have a major impact on the Energy Community countries and the UK imports.

ABOUT ENTSO-E

ENTSO-E – the European Network of Transmission System Operators for Electricity – brings together 40 electricity Transmission System Operators (TSOs) from 36 countries. ENTSO-E members are responsible for the secure and coordinated operation of Europe’s electricity system. Together, they operate a system of around 500 000 km of power lines – the largest interconnected electrical grid in the world – and serve about 520 million citizens.