



Energy Trading in Central and South-Eastern Europe

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Market coupling and trading opportunities in South-Eastern Europe

How will the CBAM be applied in South-Eastern Europe ?

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New Commission, new priorities

- **2024 is the year of the next European elections.** A new European Parliament will be elected in June 2024, and a new European Commission will be appointed by the end of 2024.
- **The new mandate brings many uncertainties - political priorities will be redefined.** Increased populism and nationalism might shift the balance of power between the different political groups of the European Parliament and make the next stage of the Green Deal implementation more difficult.
- The recent geopolitical shifts (Ukraine war, relations with the US and China, weakened multilateral system) have led to a **strategic re-orientation of the EU**. Reducing dependence on China and increasing the EU's strategic autonomy are rising issues on the agenda.
- It will be critical to understand the direction and potential business impact of the 2024-2029 Commission political agenda, possibly built around the idea of **competitive sustainability**.

But decarbonisation will remain the guiding line of EU policy

- **Achieving net zero emissions by 2050** is the binding objective set by the European Commission under the European Green Deal in 2019.
 - To that end the EU has launched many legislative initiatives **to decarbonise all sectors of the economy**, using more interventionist methods (regulation, state aid) than before.
 - This evolving regulatory landscape creates **opportunities for businesses to rethink more sustainable business models**.
 - Criticism includes impact on competitiveness (CO2 standards, EURO7, CSDDD), costs for consumers (ETS for transport and buildings), impact on trade (CBAM) and more generally **the regulatory and administrative burden**.
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The CBAM - nature and objectives

The CBAM is a border levy applied to certain goods entering the EU with high levels of embedded carbon emissions and/or deemed to be most at risk of carbon leakage: aluminium, iron & steel, hydrogen, electricity, cement, and fertilisers.

Up to now, to safeguard the competitiveness of industries covered by the EU ETS, the production from sectors and sub-sectors deemed to be exposed to a significant risk of carbon leakage receives a higher share of free allowances compared to the other industrial installations.

The CBAM is introduced as a new instrument against the risk of carbon leakage, so gradually replacing the free allocations (maintaining a level playing field, but raising its altitude)

From a situation where no one pays to a situation where everyone pays



Sectors and subsectors which, pursuant to Article 10b of Directive 2003/87/EC, are deemed to be at risk of carbon leakage

ETS

List of sectors and sub-sectors deemed to be at risk of carbon leakage...

...very long list...

...longer than the CBAM one...

...indication of the CBAM Evolution ???

Note that this is sectors, not products as in the CBAM

1. Based on the criteria set out in Article 10b(1) of Directive 2003/87/EC

NACE Code	Description
0510	Mining of hard coal
0610	Extraction of crude petroleum
0710	Mining of iron ores
0729	Mining of other non-ferrous metal ores
0891	Mining of chemical and fertiliser minerals
0899	Other mining and quarrying n.e.c.
1041	Manufacture of oils and fats
1062	Manufacture of starches and starch products
1081	Manufacture of sugar
1106	Manufacture of malt
1310	Preparation and spinning of textile fibres
1395	Manufacture of non-wovens and articles made from non-wovens, except apparel
1411	Manufacture of leather clothes
1621	Manufacture of veneer sheets and wood-based panels
1711	Manufacture of pulp
1712	Manufacture of paper and paperboard
1910	Manufacture of coke oven products
1920	Manufacture of refined petroleum products

CBAM: in a transitional phase in 2024 and 2025



Importers have to report emissions embedded in their goods subject to CBAM without paying, starting for Q4 2023 imports,

Reports are at the end of the month following the Qx, so 31st January 2024 for Q4 2023, 30th April for Q1 2024

And a phasing-in period afterwards:

When the system becomes fully operational in 2026, importers will have to declare annually the quantities imported in the preceding year and surrender the corresponding number of CBAM certificates.

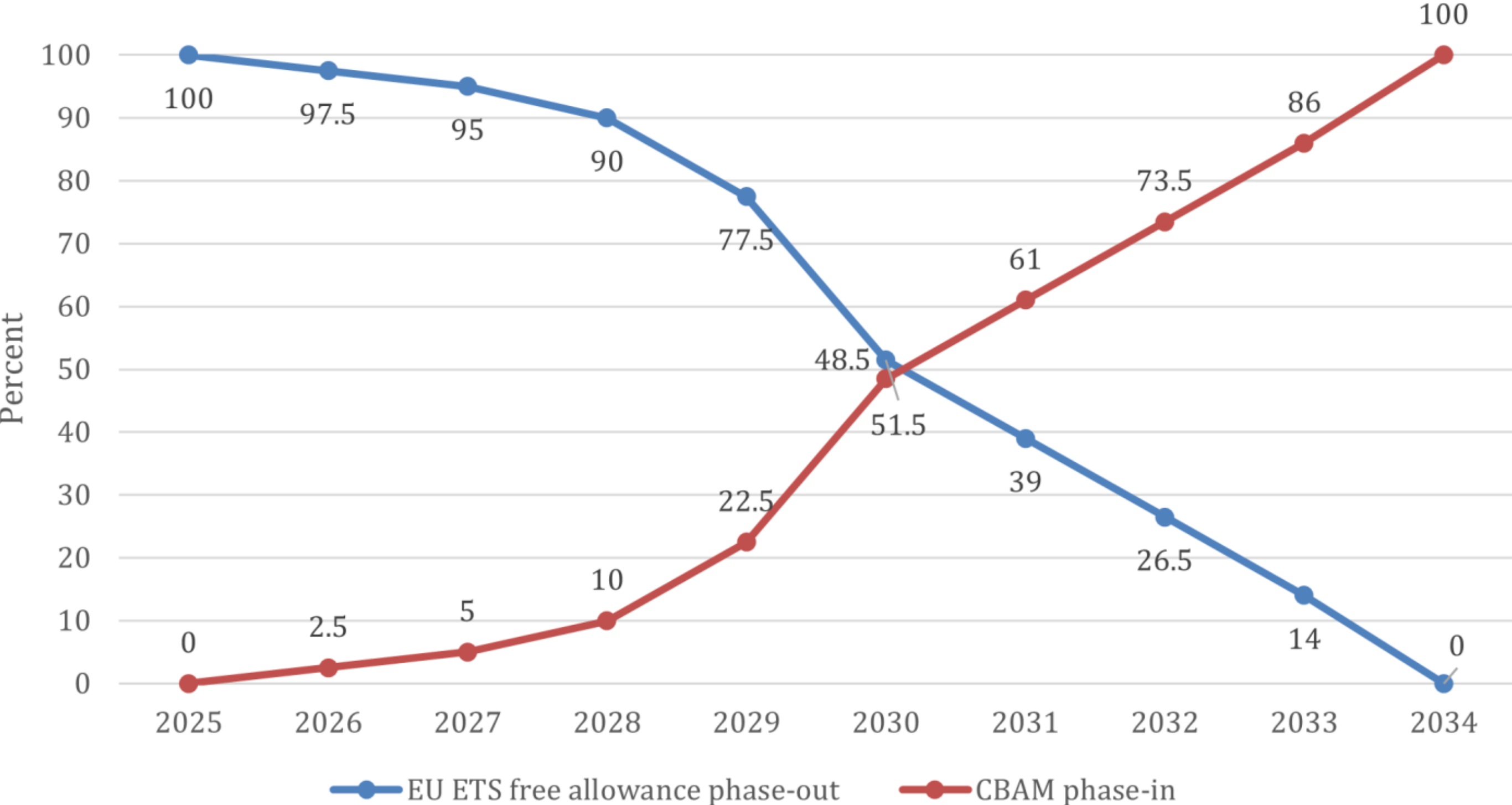
The CBAM will be gradually phased in from a “€ value” viewpoint, simultaneously to the phase out of the free ETS allowances for the corresponding sectors, over a period of 8 years, so will be fully in place in 2034.

Phase out date of free allowances in ETS and CBAM phase in

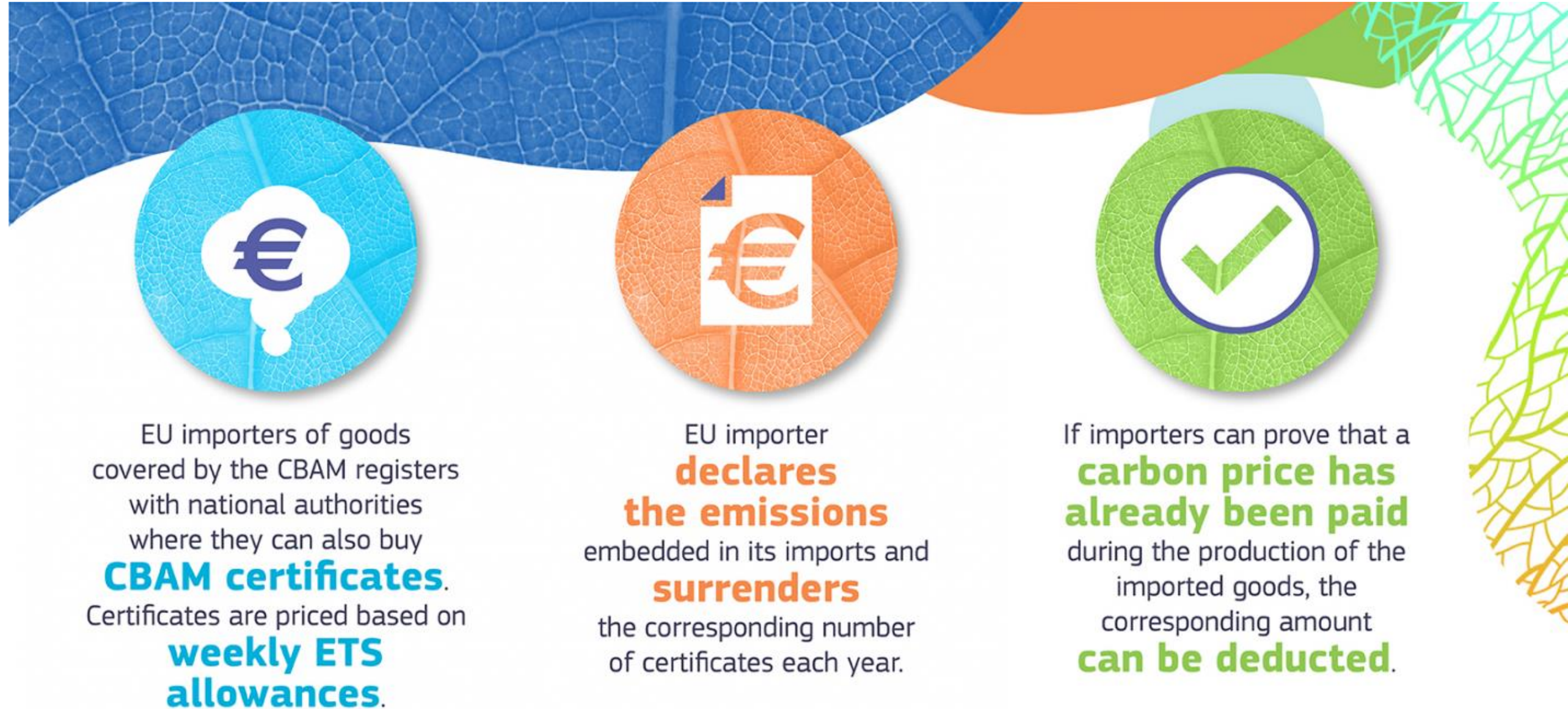
2026 : 2.5%	2027 : 5%	2028 : 10%	2029 : 22.5%	2030 : 48.5%
2031 : 61%	2032 : 73.5%	2033 : 86%	2034 : 100%, so CBAM fully in	

PLUS, REVIEW IN 2026: SCOPE, MODALITIES, ETC

Simultaneous and gradual CBAM phase-in and free ETS allowances phase-out



Basic principles of working of the CBAM when it runs (after transitional periods)



Scope: categories of imports touched by the CBAM

Sectors covered in the first phase of the CBAM - our environmental policy tool to help maximise the European and global impact of our fight against climate change.

CEMENT

IRON & STEEL

ALUMINIUM

FERTILISER

ELECTRICITY

HYDROGEN

Annex 1 to the CBAM regulation precisely defines the products by their CN codes

+ greenhouse gases to take into account

Electricity

(extract)

CN code	Greenhouse gas
2716 00 00 – Electrical energy	Carbon dioxide

Fertilisers

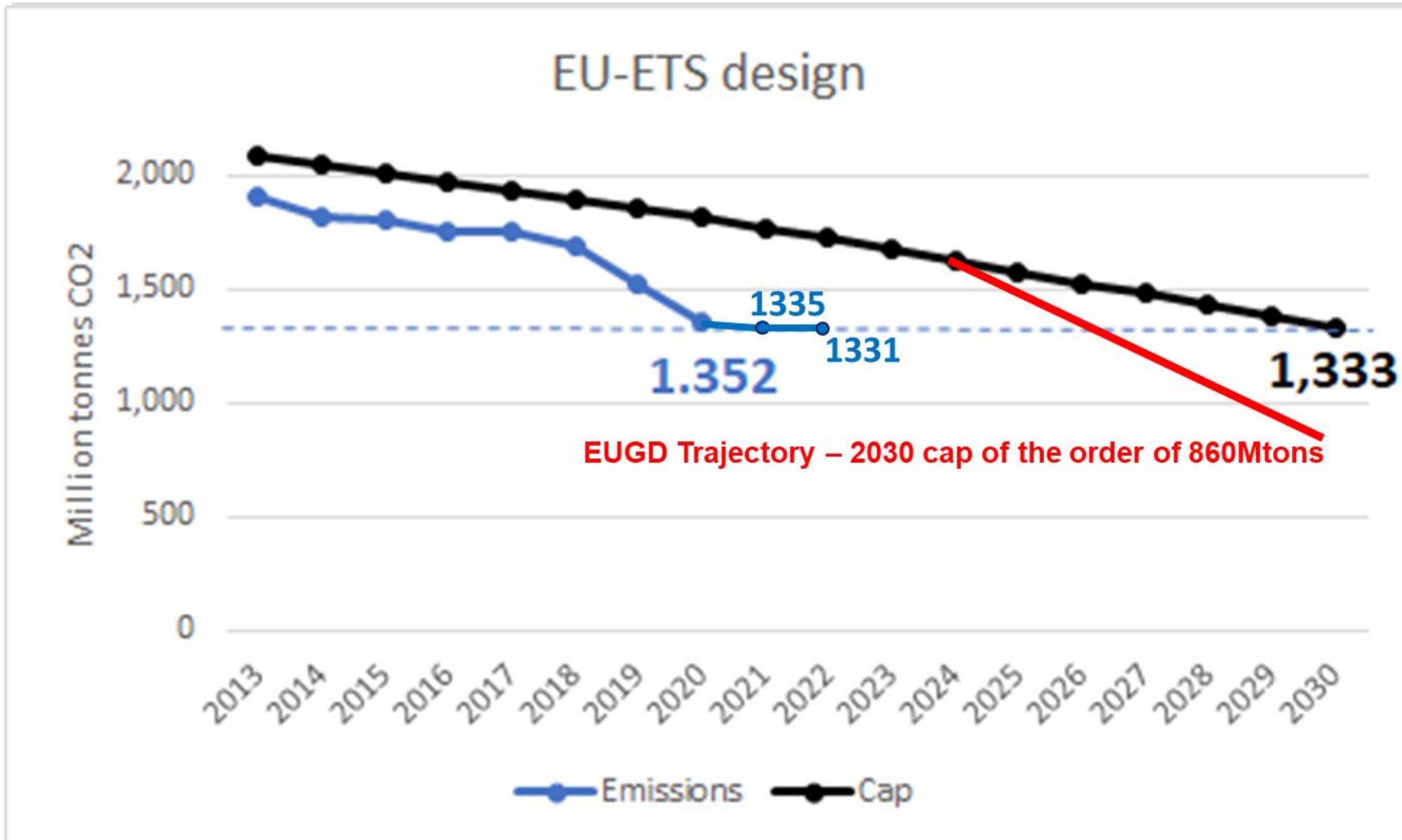
CN code	Greenhouse gas
2808 00 00 – Nitric acid; sulphonitric acids	Carbon dioxide and nitrous oxide
2814 – Ammonia, anhydrous or in aqueous solution	Carbon dioxide
2834 21 00 – Nitrates of potassium	Carbon dioxide and nitrous oxide
3102 – Mineral or chemical fertilisers, nitrogenous	Carbon dioxide and nitrous oxide
3105 – Mineral or chemical fertilisers containing two or three of the fertilising	Carbon dioxide and nitrous oxide

Annex 2 defines the products for which only direct emissions are taken into account: iron and steel, aluminium, hydrogen
Subject to revisions in 2026

The ETS – linked to the CABM - will need more revisions

It now has a faster decrease of the CAP, down to zero in 2039

Without changes, prices (expectation based) are likely to rise sharply, even before 2030



Specific situation in central and south-eastern Europe

The CBAM geographical coverage is the EU27 + Iceland, Norway, Liechtenstein, Switzerland.

Hence trade with neighbouring countries, members of the Energy Community (Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Moldova, Montenegro, Serbia, Ukraine, Georgia) will be subject to CBAM.

For power, there are possibilities to avoid the CBAM. Example: Serbia is integrating its electricity exchanges under the Alpine-Adriatic Danube Power Exchange. This is a first step in the process of merging the day-ahead market with the European market, which is the fulfilment of one of the prerequisites for Serbia for the abolition of the CBAM fee.

Coupling its electricity system with the EU to avoid CBAM requires a country to sign up to comply with EU environmental and competition law in the electricity sector and to set up an emissions trading scheme by 2030.

Over the rest of the CBAM scope beyond electricity, The EC stands ready to engage into bilateral cooperation towards the establishment of explicit carbon prices, deductible from the EU CBAM.

Impact of CBAM will vary across countries

In total, the Western Balkans exported 25 TWh of power to the EU between 2018 and 2020.

- North Macedonia has pledged to close its coal power plants by 2027, meaning it would only briefly be impacted by CBAM if the phase-out is effective.
- Montenegro exports to the EU majorly increased when an undersea cable to Italy entered into operation. In 2020, the country exported more than 1,6 TWh of electricity. The country has attempted to set up a carbon market, but with issues.
- Bosnia and Herzegovina would likely be very affected, with about 20% of its total electricity production exported to the EU, based on 2011-2020 figures. In 2020, 70% of the country's power generation is from coal.
- Serbia power generation is also heavily reliant on coal, but it has limited exports to the EU.
- In 2020, Kosovo power generation almost completely came from coal, but due to minimal EU links, impact will be limited.
- Albania is also unlikely to see a huge impact as the country exported 7% of its total generation between 2011 and 2020, and none of this came from coal. However, it would apply if the country builds gas power plants as planned.

Conclusions

- The EU CBAM is already in application, started on Oct 1st 2023. Imports in scope have to be declared every trimester, this will later become a yearly obligation.
- Payments only start in 2026, and gradually reach the ETS level by 2034, whilst free ETS allowances are removed.
- There is a clear incentive to link power markets and to establish explicit and deductible carbon prices in the neighbouring countries.
- The system will be reviewed, possibly several times, including in any case in 2026, on the basis of studies and reports to be conducted and published from 2025
- Many modalities will be up for revision, the scope, the details of the obligations (contained in secondary legislation), etc
- The ETS to which the CBAM is linked will also need to be revised, very probably before the end of its current phase in 2030, and in 2030 in any case.
- Companies in South-Eastern Europe need to be up to speed with these regulatory novelties and changes as the consequences will be profound.

THANK YOU – Pierre.Dechamps@FTIConsulting.com