On Carbon Border Adjustment Mechanism and its impact on European power

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What is CBAM? And why its implementation is crucial and critical at the same time for the EU?

We discussed this topic in a panel with experts and market parties from all over Europe at E-world.

A recap of the main take-aways in the present slides.

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What is CBAM?

“"CBAM is the EU’s mechanism to prevent carbon leakage by extending the logic of the EU ETS to certain imports. Carbon leakage occurs when companies move carbon-intensive production from the EU to countries where less stringent climate policies are in place than in the EU, or when EU products get replaced by more carbon-intensive imports.

CBAM seeks to establish an equivalent carbon price for imported production of specific goods. It currently covers cement, iron and steel, aluminum, fertilizers, hydrogen, and electricity.

Starting from January 2026, authorized declarants and importers are required to purchase and surrender CBAM certificates that correspond to the embedded emissions of their imported goods. The cost of these certificates is directly linked to the average weekly price of EU ETS auctions. This ensures that the carbon price for imports stays aligned with the actual market price of EU carbon allowances."

Dr. Cansu İlhan
ESG Lead

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Main issues when it comes to electricity

“Electricity is a unique case under CBAM because it does not behave like other covered goods. Unlike most products, it is not a physical product that can be stored, labelled, or directly traced.

Once electricity enters the grid, generation from different sources is pooled together and delivered through interconnected systems. This creates a fundamental challenge when CBAM seeks to apply concepts such as physical origin, traceability, and embedded emissions to electricity.

The current framework does not fully reflect how power markets operate. Requirements such as demonstrating the absence of grid congestion, proving physical delivery, and meeting strict traceability conditions make the use of actual emission factors extremely difficult in practice. „

Dr. Cansu İlhan
ESG Lead

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About the EC´s proposal (December 25)

„The existing rules often rely on conservative fossil-based default values that do not accurately reflect the real generation mix of exporting countries. This may introduce cost-related uncertainty and encourage more cautious positioning in cross-border electricity trading.

The European Commission's December 2025 proposal to amend Regulation (EU) 2023/956 represents an important and pragmatic policy shift. In addition to moving toward average grid emission factors and removing congestion-related conditions, the proposal clarifies the treatment of PPAs and limits capacity nomination requirements to cases where explicit capacity allocation applies.

These adjustments aim to better align CBAM with the operational realities of interconnected electricity systems and cross-border trading."

Dr. Cansu İlhan
ESG Lead

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The effect on new markets in the Balkans

"CBAM is designed as a mechanism to bring fair and equitable participation of market players in relation to the carbon footprint of commodities.

Unfortunately, its application to electricity creates additional trade and bureaucratic barriers It does not help, but rather harms free trade, liquidity and hence fair price formation in small markets.
This is critical for the newly established energy exchanges in the Western Balkans and Moldova. Uncertainty creates unnecessary regulatory risk, followed by a reluctance to import, export or transit electricity. This affects producers and consumers in both non-EU and EU countries.

My hope is that CBAM will nevertheless create an incentive for new investments in renewable technologies in countries outside the EU, as well as for closer integration and accelerated coupling of energy exchanges."

Plamen Popov
Consultant

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The effect on XB flows

“ Uncertain regulation generates uncertainty in the markets, and this is particularly true in the energy sector, as electricity is an intangible good that is more difficult to include within the CBAM framework.

Since the first day of 2026, the entry into force of the CBAM has led to a tightening of auction prices and a widening of spreads across all borders from a non-EU country to an EU country, with effects also on exchange flows, which have decreased for some borders while increasing for others.

In the latter case, the increased flow could be considered merely transit, and therefore exempt from the CBAM, from a non-EU country through the EU to a non-EU country. However, since electricity is an intangible asset, it is unclear how to demonstrate transit and obtain an exemption from the application of the CBAM.”

Sara Durante
Senior Trader

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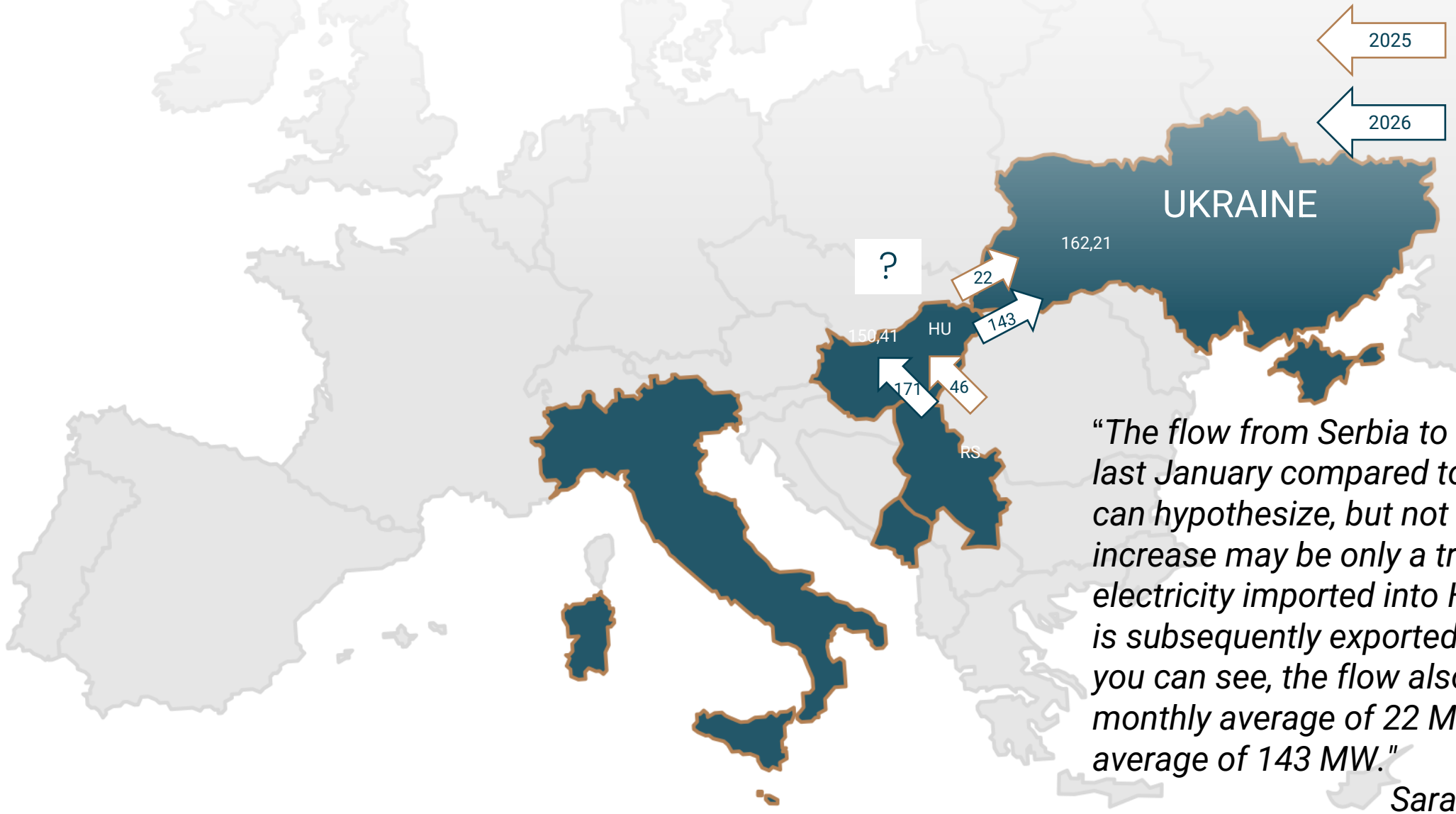
Hungary as a transit from non-EU to non-EU(MW)?



"The flow from Serbia to Hungary increased last January compared to January 2025. We can hypothesize, but not prove, that this increase may be only a transit and that the electricity imported into Hungary from Serbia is subsequently exported to Ukraine where, as you can see, the flow also increased from a monthly average of 22 MW to a monthly average of 143 MW."

Sara Durante - Electrade


Thank you
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