



ETS Fallback Benchmarks – immediate concerns to be taken into account in the review of the ETS benchmarks for 2026-2030

The undersigned associations – representing 14 major industries covered by the heat and fuel fallback benchmarks ranging from metals to chemicals, from ceramics to food-processing – would like to address concerns regarding the foreseen review of the heat and fuel benchmarks for 2026-2030. As these fallback benchmarks were developed for cases where no product benchmark could be developed due to the small number of installations or high heterogeneity of products in the same code, the free allocation of a large number of installations depends on them – and thus their carbon leakage exposure.

A reduction of the heat and fuel fallback benchmarks of 50% - the maximum rate – will pose severe challenges to our sectors. Including the use of biomass, cogeneration, and installations importing measurable heat from exothermal-process heat exporters, as a reference for the improvement of the benchmarks leads to a proposed benchmark reduction rate that does not reflect the actual technical potential and availability of the alternative fuels or heat sources for the affected installations. As biomass is a structurally limited and unevenly accessible resource, its inclusion as a benchmark reference conflicts with the ETS principles of technological neutrality and equal treatment, as it assumes universal availability that cannot be met across installations. Meanwhile, despite its efficiency benefits and growth potential in industry, new cogeneration uptake has been limited among EU ETS installations, and the operation of existing installations has fluctuated due to market developments and regulatory burden.

Limited grid capacity and insufficient renewable heat infrastructure mean that accelerated benchmark reductions risk carbon leakage rather than decarbonization. Consequently, there will be an increased risk of closures and facility relocation due to reduced carbon leakage protection, as the European Commission seeks to close the gap of the EU's global competitive disadvantage. As the risk of carbon leakage increases, a balanced pace and predictable pathway is needed to give industry the means and time to develop and implement low-carbon and climate-neutral technologies and switch to alternative fuels.

- A realistic assessment of the technical limitations

Biomass is not uniformly available within the EU and across the different sectors. Its availability depends on several factors, including national/regional population densities and the relative sizes of agriculture, forestry, marine, and waste-based sectors. Moreover, regional legislation and air quality considerations prevent industrial combustion of solid biomass in some European regions, while access to biomethane is limited and not yet cost-competitive¹.

Even if biomass was readily available, there are limitations on the extent to which it can be used to significantly reduce direct GHG emissions in different industrial processes. The processes in numerous installations covered under fallback benchmarks require continuous high temperature – in some instances so high that these cannot run solely on biomass given availability, technical and quality constraints; combustion of solid biomass– if adequate quantities can be secured – cannot produce high temperature gases (i.e. above 1100C) and can also contaminate products, largely limiting the use of biomass and therefore its usefulness as a reference fuel. Consequently, biomass can support but not deliver industrial decarbonisation on its own under the EU ETS.

Representativeness of biomass, cogeneration and measurable heat imports

Sustainable bioenergy feedstocks are scarce, and the EU is already an overall net importer of biomass. Given the range of competing demands and the sheer quantities required, it is clear that there is insufficient availability of sustainable, competitively priced biomass feedstock for it to be a viable option for all installations allocated under the fallback approach.

In fact, the uptake of biomass in the recent years has been minimal. The overall EU share increased by only +3.4 percentage points (from 7.4% to 10.8%) between 2013 and 2023 (Source: IEA – reference year: 2024).

Cogeneration is a mature and efficient technology, but its deployment at EU level has remained broadly stable over the past decade while CHP electricity as a share of total electricity has been declining, reflecting policy, market and site-specific constraints rather than a lack of technical improvement, with recent investments primarily concentrated in power-oriented applications such as district heating rather than industrial process heat. (Source: COGEN Europe).

Electrifying the heat generation is still not cost competitive enough, high temperature applications cannot yet be covered by electrical heat generation units and the extension of green electricity generation capacities as well as the necessary grid infrastructure is not sufficient all across Europe.

Generalizing the benchmark update based on the number of installations that run on biomass (or cogeneration or installations importing measurable heat from exothermal-process heat exporters) is not reflective of the deployable technologies, their availability to the processes, and the overall energy consumption of sites covered by fallback benchmarks. The sites considered as benchmark-setters are likely statistical outliers: smaller consumers, and not representative of the

¹ See Directive (EU) 2024/2881 on ambient air quality, Directive 2010/75/EU on industrial emissions, and Directive (EU) 2015/2193 on medium combustion plants, which allow Member States to restrict combustion fuels to meet air quality objectives, effectively limiting industrial solid biomass use in certain regions.

availability and technical viability or energy demand of the overall sectors under these fallback benchmarks.

- Avoid unwanted side-effects

The stricter benchmarks bear the risk of being counterincentives for biomass' (or cogeneration's) wider use: despite the higher costs and lower energy efficiency than the fossil fuel it replaces, due to the new biomass sustainability criteria adopted under the RED III Directive and high temperature processes, the replacement with biomass increases the installation's activity level without the benefit of an increase in free allowance or energy consumption reduction. On the contrary, the installation may be penalized due to its deterioration of the energy efficiency indicators. Stricter benchmarks may incentivise biomass use in principle, but benchmark design and industrial realities mean biomass is only available to some installations in specific sectors and/or regions.

A drastic reduction of the heat benchmark will also drastically lower the incentive for installations to recover and export excess heat from their processes to district heating for the benefit of surrounding communities, given that allocation for such heat export is based on the heat benchmark. This would be contrary to the EU's circularity and energy efficiency goals.

We should be able to achieve a smooth transition supporting technology maturation for our production steps until these are broadly available, and to be aligned with the objective to maintain a competitive European industrial base to secure economic autonomy and resilience while pursuing the EU climate neutrality target. Currently we face a lack of transparency on the underlying data and assumptions as well as the treatment of statistical outliers. It reduces the regulatory certainty for our industries.

The calculation of the fallback benchmark reduction rate must be reflective of the actual availability and technical viability of alternative energy sources in the EU. To that end we call for a suspension of the ETS benchmarks update² until the current approach is replaced by a methodology that is more reflective of the industry's reality.

² This measure must be accompanied by relevant provisions to avoid triggering the Cross-Sectoral Correction Factor (CSCF), as this would lead to a transversal reduction of free allowances and undermine the objectives of the measure