FuelsEurope
FUELLING EUROPE'S FUTURE

CONSULTATION RESPONSE

# FuelsEurope's contribution to the Call for Evidence on the review of the EU Emissions Trading System for maritime, aviation and stationary installations, and market stability reserve

**July 2025**

*FuelsEurope welcomes the European Commission's consultation of stakeholders ahead of the review of the Market Stability Reserve and of some of the Emissions Trading System's elements by 2026 and of the assessment of whether additional policies are needed to each the EU's climate targets.*

*This document is intended as an accompanying narrative to a number of responses provided to the questionnaire of the Consultation, or the reasoning to abstain from answering.*

## Views on the EU ETS I post-2030 and the way forward

FuelsEurope supports the EU's goal of climate neutrality by 2050 and the 2030 target of 55% emissions reductions, recognizing this will require breakthrough technologies, significant investments and an enabling policy framework.

At the time the EU ETS was established, the long-term aspiration was that over time, a global carbon market could be created; this would level the playing field internationally, reduce carbon leakage, and enable cost-efficient climate action on a global scale. However, 20 years later, those aspirations have not been met: this has left the EU ETS operating in an isolated landscape, where the European industry faces rising carbon costs that competitors elsewhere do not.[1]

With the current EU ETS parameters, there will be no new supply of allowances to the market after 2039 (i.e. 14 years from now), neither through free allocation, nor through auctioning. As it stands, the current trajectory of the EU ETS is unsustainable for the EU industry. While the system has been effective in delivering early emissions reductions, **it now does not provide a viable business case for the decarbonisation of trade exposed and hard to abate sectors in the EU**.

In line with the EU climate neutrality objective, renewable and low-carbon fuels will play a critical role in decarbonising and strengthening Europe's energy security. The EU's refining sector is currently facing two critical challenges: competing in international markets and implementing an industrial transformation investing in net zero technologies. **The current ETS framework does not provide an enabling framework for a business case to invest in decarbonisation in the EU**: what is currently required to meet the EU's ambitious targets is often not investable due to high regulatory costs, uncertain or unlikely returns, regulatory uncertainty and lack of supporting mechanisms. Hence, instead of incentivising clean investment in Europe, the current framework risks incentivising carbon and investment leakage, leading to deindustrialisation and energy security concerns. Without a structural redesign of the EU policy framework to better reflect industrial competitiveness, market pull measures to create meaningful investment signals, and innovation support, the system will continue to drive both carbon and investments out of Europe, rather than enabling decarbonisation within it. If the EU wants to achieve its climate ambitions while maintaining industrial resilience, fulfilling the commitment of the Clean Industrial Deal to turn decarbonisation into a driver of growth for European industry and following up to the recommendations of the Draghi Report, the ETS must evolve to support competitiveness, safeguard jobs, and incentivise decarbonisation within the EU.

## The need for demand-side measures to complement the EU ETS framework

While the EU ETS focuses on the manufacture and supply of renewable and low-carbon products, the only way to achieve industrial decarbonisation in the EU is by supporting the demand for those renewable and low-carbon goods as well. A market that adequately values renewable and low-carbon products would provide for a business case to invest in decarbonisation at scale, which is currently absent in the EU.

Demand-side measures down to consumer level are urgently and critically needed to complement the existing focus of the EU ETS, which primarily targets the supply side through the incentivization of renewable and low-carbon

[1] At this stage, CBAM is not considered to be able to fully level the playing field on carbon costs

Bd. du Souverain 165
1160, Brussels | Belgium
T +32 (0)2 566 91 00
info@fuelseurope.eu
www.fuelseurope.eu
Transparency Register
26207914726-42

manufacturing. While the ETS plays an important role in reducing emissions, it is not sufficient on its own to drive the systemic transformation required to meet the EU's 2050 climate target. To unlock the full potential of industrial decarbonisation, we must go further—by actively stimulating and supporting demand for renewable and low-carbon goods.

The creation of robust and reliable markets for low-carbon products is essential. Without clear signals that consumers — whether businesses, governments, or individuals — will prefer and value cleaner alternatives, there is insufficient incentive for industries to invest in the often-capital-intensive transition to low-carbon production methods. A vibrant demand-side framework would provide the business case needed for these investments, de-risking innovation and effectively enabling the deployment of cleaner technologies across sectors.

## The need for effective carbon leakage risk mitigation

Effective, adequate and sustained carbon leakage risk mitigation for trade exposed industry sectors is essential to avoid carbon and investment leakage, and to allow the industry to afford and recover the massive investments required for decarbonisation. This holds particularly true for the refinery sector since, according to the most recent data published by the European Commission, the free allocation balance for the refinery sector under the EU ETS at the start of the fourth trading period already had a shortfall of 35% on average.[2] Moreover, the allocation should genuinely reflect the technological feasibility and avoid punitive cross-sectoral correction factors that disproportionately reduce allowances for hard-to-abate industries.

## Market Stability Reserve

The Market Stability Reserve (MSR) has been instrumental in addressing the structural surplus accumulated in the past. However, its effectiveness has not been tested in situations of lack of market liquidity, but only in situations of surplus. However, the context today is very different form the past, and it requires a different approach. Whereas market resilience remains crucially important, it is not clear that the MSR is the appropriate mechanism to address those issues, especially not going forward where the key concern will be scarcity of allowances rather than oversupply.

The MSR may not be a long-term support to resilience, as future resilience and decarbonisation investments hinge on effective carbon leakage protection and a policy framework that reflects new market realities and provides an enabling business case for decarbonisation investments. However, the MSR may temporarily contribute to support market liquidity. To this end, the focus should shift to address the concerns related to scarcity of liquidity: invalidation should be halted, previously invalidated allowances restored, and intake/release thresholds redefined dynamically to reflect evolving circumstances. The invalidation of allowances, in particular, artificially reduces the carbon budget implied in the Directive, and will create significant issues in the future by destroying liquidity that should have remained inherent to the system for longer term functioning. A new approach is essential to preserve industrial competitiveness while supporting the EU's climate ambitions: in this regard, the MSR should contribute to the increase of market liquidity, given the expected future scarcity, hence also contributing to prevent excessive EU ETS price volatility.

## Coherence between EU legislation and the global framework

European legislation shall avoid by any means the imposition of double burden on operators and the creation of inconsistencies with global frameworks, such as the initiatives of the ICAO and of the IMO.

For truly global sectors, like the aviation and maritime ones, a global approach represents a better solution compared to regulating at regional level. In this regard, the focus should be on the harmonization with global initiatives (ICAO and IMO), rather than on the extension of the EU ETS framework.

With regard to maritime, in order to further incentivise the uptake of renewable and low-carbon maritime fuels based on Well-to-Wake emissions, the preferable approach is the adoption of a global Well-to-Wake approach under the IMO framework, as recently resolved at IMO's MEPC83. Should this not be achieved, and should a regional approach to maritime emissions be maintained, a Well-to-Wake approach should be kept in FuelEU Maritime.

With regard to aviation, ICAO's commitment to reach net zero by 2050 should improve the global regulatory framework. However, the effectiveness of the approach to international flights will be clearer closer to 2028, based on future developments.

[2] *European Commission, Update of benchmark values for the years 2021 – 2025 of phase 4 of the EU ETS, 2021.*

## New Technologies: Carbon Removals and international credits

Removals can play a critical role in achieving net zero and contributing to market functioning. Engineered removals certified under the CRCF should be allowed for use by EU ETS regulated entities towards their ETS compliance obligations. For what concerns the possibility to allow EU ETS regulated entities to use nature-based removals towards their compliance obligations, this would depend on the modalities of such use and conditional upon the maintenance of environmental integrity. However, nature-based removals should not be fully fungible with permanent removals (i.e. they should not be assigned the same value).

The use of high-integrity international credits should also be recognised in the EU ETS. This will help manage compliance costs and support market liquidity. International and EU removals credits should hold equal compliance value to EUAs. Recognising international removals supports global climate goals and offers lower-cost compliance options, especially given high value chain costs for engineered removals in Europe. The Carbon Removals Certification Framework (CRCF) framework will also need to be expanded to allow for the assessment of international removals.

## New Technologies: Non-permanent Carbon Capture and Usage (CCU)

The EU ETS has established accounting (''accounting'' in this context refers to emission accounting, i.e. monitoring and reporting emissions associated with certain processes, and, in the context of the EU ETS, the surrender of the corresponding number of emission allowances) of non-permanently captured emissions upstream, at the first point to release.

CCU fuels play a critical role in the energy transition, as they offer a viable decarbonisation pathway for hard-to-abate sectors, foster a circular carbon economy by promoting the reuse of captured carbon, and accelerate the transition towards climate neutrality. Hence, CCU fuels are not only a technological option: they are a strategic necessity.

Until now, upstream accounting (Figure 1) under the EU ETS has contributed to incentivise the production of CCU fuels, as it has allowed CCU fuels to meet the RED GHG qualification criteria (RFNBOs and RCF) and the Gas Directive minimum GHG savings for low-carbon fuels (LCF). It is also explicitly required in the Commission's Q&A on the implementation of hydrogen delegated acts[3] (see page 23: *"the captured CO2 has been 'taken into account **upstream** in an effective carbon pricing system' ")*.

Upstream accounting of captured CO2 should be retained under the EU ETS in the context of the upcoming review of the Directive as, compared to a downstream accounting approach, it:

- **Provides a stronger business case for the use of captured carbon for the production of CCU fuels rather than fossil alternatives**: through the accounting of captured CO2 upstream, the user of the fuel can report that the avoided CO2 is actually used as a feedstock for fuel production. This is needed to recognize the ability of the CCU fuel to meet the, at least, 70% GHG savings obligation under the RED and the GHG savings for Low-Carbon Fuels under the Gas Directive. CCU fuels represent a compliance option only where they meet the criterion of at least 70% GHG savings. The upstream installations would recover the cost when selling the CO2 to another installation producing CCU fuels, as the latter would be incentivised to produce such fuels if they qualify under the RED, the ETS Directive and the Gas Directive.
  On the other hand, without upstream accounting these criteria would not be met.
  Hence, under a downstream accounting approach, CCU fuels made from industrial sources CO2 will not qualify as RFNBOs or LCFs. As a consequence, this would undermine the business case to capture CO2 for RFNBO or LCF production, and this would remove an opportunity for many sites to significantly cut their emissions where CCU would have offered a compelling opportunity with an upstream accounting framework.

[3] Q&A on the implementation of hydrogen delegated acts (14 March 2024)

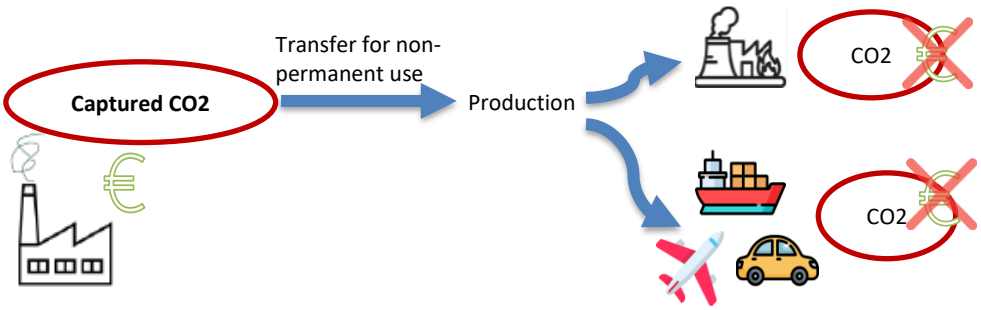


Figure 1: Upstream accounting for CCU fuels and products

Moreover, RED Art. 28(5) , prescribes that the methodology for assessing GHG emissions savings from RFNBOs and RCFs shall ensure that credit for avoided emissions is not given for CO2 from fossil sources the capture of which has already received an emission credit under other provisions of law. The implementation of a downstream accounting system, would entail the receipt of a credit beforehand (i.e. no obligation to surrender allowance for the capturing installation), hence, CCU fuels would not be eligible under this provision, thereby undermining their economic feasibility.

- **Provides regulatory stability to investors by maintaining coherence across different pieces of legislation**: the current accounting system ensures coherence between the rules established under the RED and the rules established under the EU ETS. As a matter of fact, as explained above, it ensures that CCU fuels meet the criterion of the 70% GHG emission savings and it allows eligibility of CCU fuels under RED Art. 28(5). Upsetting the current rules would entail the need to change a number of pieces of legislation, including secondary legislation, thereby eroding regulatory certainty and weakening investor confidence, jeopardizing the deployment of CCU fuels to achieve climate goals.

Should the waste sector be included in the EU ETS scope, an upstream accounting approach should be in any case retained for CCU fuels, as they are products for which waste treatment is not part of the normal lifecycle. In this case, however, a downstream approach for CCU products that are not fuels may be implemented, as waste treatment is part of the normal lifecycle of such products, hence supporting circularity (Figure 2). This should be implemented together with a robust verification process that ensures the final use of the product is material and not fuel.

In this case, allowances would be surrendered downstream (at the point of emission) for CCU products, and upstream (at the point of capture) for CCU fuels. If products made of CO2 captured from an upstream installation (for example, a cement plant) end up in in a cement plant again (i.e. co-incineration), the capture of this CO2 to produce another CO2 product would relieve the capturing installation from the obligation to surrender allowances.

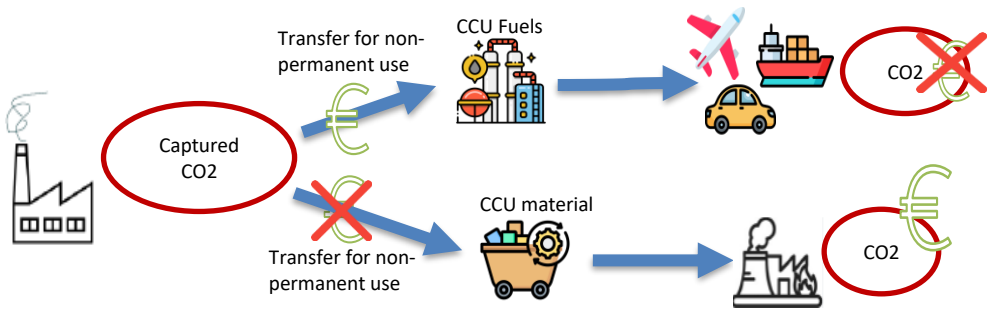


Figure 2: Differentiated accounting for CCU fuels and products

FuelsEurope, the voice of the European fuel manufacturing industry. FuelsEurope represents, within the EU institutions, the interest of 40 companies manufacturing and distributing conventional and renewable fuels and products for mobility, energy & feedstocks for industrial value chains in the EU.

Contact : Miriam Stellino
T +32 490 42 49 43
F +32 2 566 91 63
Miriam.stellino@fuelseurope.eu
www.fuelseurope.eu