Carbon Management Europe

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Revision of the EU ETS benchmark values for free allocation of emission allowances (2026-2030)

Response to the public consultation

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1. Introduction

Carbon Management Europe (previously known as Zero Emissions Platform) welcomes the opportunity to provide feedback on the proposed revision of the benchmark values for the free allocation of emission allowances under the EU ETS between 2026-2030.

Carbon Management Europe is the official advisor to the European Union on industrial carbon management. It was originally established in 2005 as the Zero Emissions Platform (ZEP), one of the European Commission's official European Technology and Innovation Platforms (ETIPs). In 2026, it adopted the name Carbon Management Europe to better reflect its mandate and alignment with EU industrial carbon management policy.

Our mission is to enable and accelerate the deployment of carbon management technologies across Europe to help achieve climate neutrality. For over twenty years, our platform has brought diverse stakeholders together to share knowledge, find common ground, and turn technical expertise into science-based policy advice for the EU institutions and European governments. Our members include more than 40 organisations across the industrial carbon management value chain, including industry, researchers, civil society, equipment providers, financial institutions, and other key stakeholders.

Carbon Management Europe works closely with the European Commission on a number of deliverables and contributes to various expert groups, such as the Carbon Removal Expert Group and the Innovation Fund Expert Group. It also serves as an observer to ISO/TC 265 and CEN/TC 474 (on CO2 standards). Representatives of the EU institutions and European governments (ministries, agencies, and national emission authorities) regularly participate in Carbon Management Europe's meetings and events, including through a dedicated Government Group. Carbon Management Europe also helps managing the Implementation Working Group no. 9 on CCS and CCU under the European Strategic Energy Technology Plan (SET Plan) together with the Dutch and Norwegian governments.

2. General remarks

The EU ETS remains the European Union's primary carbon pricing instrument and a key driver of industrial decarbonisation. Benchmark-based free allocation plays an important role in addressing carbon leakage risks while preserving incentives to reduce emissions and invest in low-carbon technologies. Periodic benchmark updates are therefore essential to ensure that free allocation remains aligned with observed technological and industrial developments.

Carbon Management Europe supports the principle of regularly updating benchmark values using the best available data. Benchmark methodologies should remain transparent, evidence-based, and predictable, providing industry with the long-term visibility needed to support investment decisions. This is particularly important for capital-intensive industrial decarbonisation projects, including carbon capture and storage (CCS), carbon capture and utilisation (CCU), low-carbon hydrogen, industrial electrification, process innovation and other emissions-reduction technologies.

The current revision raises important questions regarding the treatment of indirect emissions, the evolution of fallback benchmarks, and the interaction between free allocation and other carbon leakage protection mechanisms. Carbon Management Europe does not take a position on the level of free allocation that should be provided to individual sectors. Rather, our interest lies in ensuring that benchmark methodologies remain consistent with the objectives of the EU ETS, preserve the integrity of carbon accounting frameworks, and support the deployment of cost-effective industrial decarbonisation pathways.

In this context, Carbon Management Europe encourages the Commission to ensure that any methodological changes are accompanied by a high degree of transparency regarding their rationale, expected impacts and interaction with other elements of the EU ETS framework.

3. Treatment of indirect emissions

Carbon Management Europe notes that the proposed benchmark update follows the removal of the rules on the exchangeability of fuel and electricity introduced through Delegated Regulation (EU) 2024/873. The objective of this change is to ensure that allocation outcomes do not depend unduly on whether emissions occur directly at the installation or indirectly through electricity consumption.

This objective is understandable. Industrial decarbonisation will increasingly rely on a broader set of technology pathways, including electrification, low-carbon hydrogen, CCS, CCU, fuel switching and process innovation. Benchmark methodologies should therefore avoid creating unintended advantages or disadvantages between comparable production routes solely because their emissions occur at different points in the value chain.

Yet the inclusion of indirect emissions in benchmark calculations raises important questions. In particular, the Commission should transparently explain how indirect emissions are reflected in the determination of the 10%

most efficient installations, how this affects individual benchmark values, and how the resulting free allocation impacts differ across sectors.

Based on the proposed benchmark values, the effects of the revised methodology appear to vary significantly between sectors. While some benchmarks experience relatively limited changes, others show more substantial impacts. This heterogeneity reinforces the importance of sector-level transparency regarding the drivers of benchmark changes and the extent to which they result from methodological revisions, updated datasets, or observed performance improvements..

Carbon Management Europe also encourages the Commission to clarify the interaction between free allocation linked to indirect emissions and Indirect Cost Compensation (ICC). These instruments serve different purposes: benchmark-based free allocation is an EU ETS allocation mechanism, while ICC addresses electricity price impacts through State aid. However, the proposed methodology illustrates the increasing interaction between different carbon leakage protection instruments as industrial decarbonisation pathways evolve. Where both mechanisms apply, their combined effect should be transparent and proportionate to the carbon leakage risks faced by the affected sectors, with safeguards to avoid compensating the same cost twice.

Greater clarity on this interaction would help avoid confusion among market participants, industrial operators and policymakers, while preserving confidence in the EU ETS as a coherent carbon pricing framework.

4. Fallback benchmarks

Carbon Management Europe recognises the important role played by fallback benchmarks in the EU ETS free allocation system. Heat and fuel benchmarks provide a practical allocation methodology for activities that are not covered by product benchmarks and therefore affect a diverse range of industrial processes across multiple sectors.

The proposed revision introduces significant changes to fallback benchmark values compared to the previous allocation period. Stakeholders have expressed differing views regarding the appropriateness of these reductions and the extent to which they reflect achievable industrial performance. While Carbon Management Europe does not take a position on the level of the benchmark values themselves, we believe that their determination should remain firmly grounded in transparent and evidence-based methodologies.

In this regard, Carbon Management Europe welcomes the Commission's efforts to update benchmark values using more recent and representative datasets. The use of contemporary industrial data is essential to maintaining the credibility of the benchmark system and ensuring that free allocation reflects actual technological and operational developments across European industry.

Yet significant changes in benchmark values warrant a clear explanation of the underlying assumptions and methodology. Given the importance of fallback benchmarks for activities that are not covered by product-specific benchmarks, stakeholders should be able to understand how benchmark values were derived, how representative the underlying data are, and how the resulting values relate to current industrial practice. This

is particularly important for activities undergoing technological transformation, where benchmark values should continue to reflect realistic and achievable decarbonisation pathways while preserving incentives for further emissions reductions.

Looking ahead, discussions on potential sector-specific fallback benchmarks should continue to be guided by objective evidence and a clear policy rationale. Any future differentiation should seek to improve the representativeness of benchmark values while preserving transparency, comparability and administrative simplicity across the EU ETS framework.

From an industrial carbon management perspective, fallback benchmarks should continue to provide predictable and technology-neutral incentives for emissions reductions. This is particularly important for activities undergoing significant technological change, including the deployment of CCS, CCU, electrification, low-carbon hydrogen, and other industrial decarbonisation solutions.

5. Carbon accounting integrity and consistency across decarbonisation pathways

As industrial decarbonisation pathways continue to diversify, benchmark methodologies should remain consistent with the broader carbon accounting principles underpinning the EU ETS. This is particularly important as industrial installations increasingly combine multiple emissions-reduction approaches, including electrification, CCS, CCU, low-carbon hydrogen, circular feedstocks, and process innovation.

Carbon Management Europe believes that methodological changes to benchmark calculations should preserve clear distinctions between direct emissions, indirect emissions, compensated costs, and verified ETS emissions. Maintaining transparent accounting boundaries is essential to ensuring that benchmark methodologies remain understandable, predictable and credible for both regulators and market participants.

In this context, the treatment of indirect emissions should be clearly differentiated from ETS compliance obligations. The proposed benchmark methodology does not alter the fundamental principle that emissions associated with electricity generation remain covered upstream by power producers under the EU ETS. Any changes to benchmark calculations should therefore be accompanied by clear explanations regarding their purpose, scope and interaction with existing ETS accounting rules.

From an industrial carbon management perspective, transparent accounting frameworks are essential to enabling investment in long-term decarbonisation projects. Investors and project developers require confidence that benchmark methodologies, free allocation rules and emissions accounting frameworks evolve coherently and consistently over time.

Carbon Management Europe therefore encourages the Commission to continue prioritising transparency and methodological clarity when implementing changes to benchmark calculations. This is particularly important where methodological revisions may affect the relative treatment of different decarbonisation pathways or interact with other carbon leakage protection mechanisms. A robust and transparent benchmark framework can help ensure that industrial operators are incentivised to reduce emissions through the most appropriate solutions for their specific circumstances, while preserving the integrity and credibility of the EU ETS.

6. Supporting investment certainty and industrial decarbonisation

The EU ETS plays a critical role in shaping investment decisions across European industry. While benchmark methodologies are primarily designed to determine free allocation levels, they also influence the long-term business case for industrial decarbonisation investments by affecting expected compliance costs and future carbon exposure.

For many industrial sectors, decarbonisation projects require substantial upfront capital expenditure and are developed over multi-year investment cycles. This is particularly true for technologies and infrastructure involved in CCS and CCU projects. Investors therefore require a stable and predictable regulatory framework when assessing long-term investment decisions.

In this context, Carbon Management Europe encourages the Commission to ensure that benchmark methodologies remain sufficiently transparent and predictable over time. Methodological revisions should be clearly explained and supported by robust evidence so that industrial operators can understand how future benchmark values may evolve as technologies mature and industrial performance improves.

Carbon Management Europe also considers it important that benchmark methodologies continue to reward genuine emissions reductions while remaining neutral regarding the specific technological pathway chosen. Different sectors face different decarbonisation challenges and may rely on different combinations of technologies to achieve emissions reductions. The benchmark framework should therefore support innovation and investment across a broad range of industrial decarbonisation solutions rather than implicitly favouring or disadvantaging particular approaches.

The transition to climate neutrality will require significant investments in industrial transformation across Europe. Benchmark methodologies should contribute to a predictable investment environment that encourages the deployment of cost-effective emissions-reduction solutions while maintaining the integrity and environmental objectives of the EU ETS.

Ultimately, the success of the benchmark framework should be assessed not only by its ability to allocate allowances consistently, but also by its ability to support the deployment of credible and durable industrial decarbonisation pathways compatible with the European Union's climate objectives.

7. Conclusions and recommendations

Carbon Management Europe supports the regular revision of EU ETS benchmark values to ensure that free allocation continues to reflect technological progress and industrial developments. As industrial decarbonisation pathways evolve, benchmark methodologies must remain transparent, evidence-based and consistent with the long-term objectives of the EU ETS.

The proposed revision raises important questions regarding the treatment of indirect emissions, the evolution of fallback benchmarks, and the interaction between free allocation and other carbon leakage protection mechanisms. While these questions merit careful consideration, any methodological changes should

continue to support predictable investment conditions and maintain confidence in the integrity of the EU ETS framework.

In particular, Carbon Management Europe encourages the European Commission to:

- Continue updating benchmark values using the most recent and representative industrial datasets, ensuring that benchmark methodologies remain aligned with observed technological and operational developments.
- Provide greater transparency regarding the treatment of indirect emissions in benchmark calculations, including benchmark-level impacts, allocation impacts and the rationale underpinning the proposed methodology.
- Clarify the interaction between benchmark methodologies, free allocation and Indirect Cost Compensation (ICC), while maintaining a clear distinction between emissions accounting, allocation rules and compensation mechanisms.
- Ensure that fallback benchmark methodologies remain evidence-based, transparent and representative of achievable industrial performance, while preserving simplicity and comparability across sectors.
- Maintain technology-neutral benchmark methodologies that support a broad range of industrial decarbonisation pathways, including CCS, CCU, low-carbon hydrogen, electrification, process innovation and other emissions-reduction solutions.
- Preserve clear and robust carbon accounting principles that distinguish between direct emissions, indirect emissions, compensated costs and ETS compliance obligations.
- Promote regulatory predictability and investment certainty for long-term industrial decarbonisation projects, recognising the importance of stable policy frameworks for capital-intensive investments.

Carbon Management Europe believes that a transparent and predictable benchmark framework can contribute to the successful deployment of industrial decarbonisation solutions across Europe while preserving the integrity, credibility and effectiveness of the EU ETS as a key carbon pricing instrument.

We appreciate the European Commission's efforts to ensure that the EU ETS benchmark framework continues to evolve alongside industrial decarbonisation, and we stand ready to continue supporting the EU institutions and other stakeholders by providing technical expertise and practical insights on industrial decarbonisation pathways, carbon accounting frameworks and the deployment of industrial carbon management solutions. We look forward to continuing the constructive dialogue on the future evolution of the EU ETS and its role in supporting Europe's climate and industrial objectives.