

EU ETS review

Eurogas recommendations

The **EU Emissions Trading System (ETS)** remains one of the **most effective climate policy instruments**, delivering emissions reduction while **supporting investment** in low carbon technologies and **strengthening Europe's energy independence**, becoming the **cornerstone of the EU's decarbonisation framework**.

However, while the EU ETS remains a necessary and effective market-based instrument for driving decarbonisation and should be preserved as a cornerstone of climate policy, **significant challenges remain**. In particular, urgent action is needed to address **affordability and industrial competitiveness**.

Additionally, the **ongoing ETS review should consider the potential impact of the proposal on the long-term ETS price signal**. The Commission proposal could result in significantly lower EUA prices than under a stricter cap trajectory. While this may reduce short-term compliance costs for industry, it could also weaken the economic incentive to invest in emissions abatement and decarbonisation solutions, including CCUS technologies and carbon removals. **Any new measures should therefore avoid inadvertently undermining the long-term investment signal needed to support industrial decarbonisation**.

In this context, the ETS review should **preserve the integrity and effectiveness of the system**, while allowing for targeted adjustments to provide relief to European industries.

This paper sets out Eurogas' key recommendations for the ongoing ETS review.

Recommendations:

1. **Market Stability Reserve:** **Increase transparency** on EUA allowance supply by providing clear, comprehensive and regularly updated information on the total number of allowances in circulation, unallocated allowances to support market integrity, predictability and informed decision-making.
2. **International Carbon Credits:** **Ensure alignment** of the EU framework for international carbon credits with the Paris Agreement Crediting Mechanism (Article 6.4) **and early engagement via pilot phase to develop a pipeline of eligible projects**. Avoid binary political decisions to adjust the LRF based on the Commission's report on the international market credit.
3. **Domestic Permanent Carbon removals:** **Article 14(1a) rights should be extended to all ETS operators and all certified permanent carbon removal technologies recognised under the ETS**, including DACCS-generated units. Allow companies to offset emissions at group level rather than solely at installation level. At the same time, avoid an unintended increase in the ETS cap through the issuance of new EUAs by committing to the procurement of 250 Mt of permanent removals, supported by additional funding mechanisms such as CCfDs and early offtake agreements.
4. **Non-Permanent CCU and Carbon Accounting:** Preserve upstream ETS accounting for RFNBOs to ensure **consistency with existing EU legislation and methodologies**, and to uphold the polluter pays principle

through accounting at the point of CO₂ capture. Recognise flexible allocation in case of mixed CO₂ streams based on a mass balancing principle.

5. [Permanent CCU](#): Review and **expand the list of permanent CCU products** recognised under the EU legislation to include additional applications that achieve permanent carbon sequestration, such as solid carbon derived from low-carbon hydrogen production and other eligible industrial processes.
6. [Business Interruption Risk](#): Address business interruption risks by introducing a mechanism that **supports emitters against high-impact, low-probability events**, ensuring that they do not bear the costs arising across the entire CO₂ value chain.
7. [Allocation of ETS revenues across energy vectors](#): Ensure that ETS revenues can support **technology-neutral decarbonisation pathways**, including gas, biomethane, hydrogen and their enabling infrastructure, while recognising the role of renewable and low-carbon fuels in decarbonising hard-to-abate sectors such as maritime transport.
8. [Benchmarks and Free allocation](#):
 - a. Introduce a **dedicated benchmark for district heating**;
 - b. **Maintain Free Allocation for District Heating at 30% until 2040**;
 - c. Link free allocation conditionality to the **existence of a viable business case** including having enabling conditions in place.
9. [Funding](#):
 - a. Ensure that the **Industrial Decarbonisation Bank** provides **predictable funding, workable conditions while guaranteeing sufficient safeguards**, and supports the deployment of CCUS infrastructure across the value chain.
 - b. Maintain adequate **Modernisation Fund** support and technology-neutral eligibility criteria.
10. [Regulatory clarity](#): Adopt the relevant delegated acts as soon as possible to **provide regulatory certainty and visibility for investors and operators and unlock the necessary investments**.

Market Stability Reserve (Art. 1, Decision 2015/1814)

Eurogas **welcomes the proposed amendments to the Market Stability Reserve (MSR)** in particular ceasing the invalidation of allowances held in the MSR, as preserving these allowances can provide an important buffer against future scarcity and market disruption. These reforms represent a coherent response to previous calls for reform. In particular, the proposal seems to adjust the MSR **to better respond to market shocks**, while avoiding radical changes that could undermine market stability.

Nonetheless, we believe that the Commission should ensure **greater transparency on the total number of allowances in circulation, as well as on the number of allowances that remain unallocated**. One of the main challenges faced by economic operators in the EUA market is the lack of sufficiently comprehensive and consistent information from the Commission on allowance supply. Information is often asymmetric, and figures may vary depending on the source used, making it more difficult for market participants to form a clear view of current and future supply.

Greater transparency will be particularly important in relation to the **new sources of allowance supply** introduced under the proposal, including those linked to the Industrial Decarbonisation Bank, the Investment Booster, international carbon credits and permanent carbon removals. The Commission should provide **clear and regularly updated information** on the number of allowances allocated to these mechanisms and how the pool of unallocated allowances evolves over time.

More broadly, **the MSR should function as a genuine two-way market-stability mechanism**. It should not only withdraw allowances in periods of surplus but also be capable of returning allowances to the market where necessary to address excessive scarcity, significant price increases or liquidity constraints. .

Improved transparency on allowance supply would **help ensure the integrity and orderly functioning of the EUA market**, while providing market participants with greater predictability.

International Carbon Credits (Art. 9a)

[Please also refer to our [recommendations on International Carbon credits](#)]

Eurogas welcomes the proposal to introduce indirectly **high-quality and high-integrity international carbon credits under the EU ETS**, in line with the EU Climate Law . This introduction also serves as an important **climate diplomacy instrument** and contributes to promoting the development and use of carbon pricing mechanisms in third countries, helping to create a more level playing field for EU industry. It can also **provide additional flexibility for hard-to-abate sectors** where residual emissions remain and commercially viable domestic abatement solutions are not yet available.

To provide legal certainty and avoid market fragmentation, the EU framework should **be aligned with established international rules, in particular the Paris Agreement Crediting Mechanism (PACM) under Article 6.4 of the Paris Agreement**. Any additional EU-specific requirements should be carefully assessed to avoid creating unnecessary distortions or barriers in the global carbon market. In this context, we urge the

Commission to **establish the legal framework for international carbon credits as soon as possible**, and as previously announced, in order to provide certainty and legal clarity regarding the quality standards, eligible credit types, and approved methodologies.

We support the European Commission in requesting an impact assessment before any international carbon credits are purchased. **We encourage the Commission to take the necessary steps to assess the feasibility of the mechanism as early as possible and make full use of the 2031-2035 pilot phase to establish partnerships with countries that have ambitious NDCs, strengthen monitoring and governance frameworks, and develop a pipeline of eligible projects.** Early engagement would provide greater certainty to market participants, support the development of market capacity and help ensure sufficient supply of high-integrity units when the mechanism becomes operational, and enhance the role of climate diplomacy while safeguarding the environmental integrity of the EU ETS.

Nonetheless, **some elements of the proposal remain unclear**, including the criteria for determining the availability of allowances and what constitutes a cost-effective allowance, as well as the Commission's price assumptions for international credits for 2036–2040 and the arrangements for transferring unused allowances to the Industrial Decarbonisation Bank. **Greater clarity on these elements will be important to assess the overall effectiveness and predictability of the mechanism. Any decision with regards to the use of international credits should be independent of discretionary political assessment.**

Finally, it is important that the Commission also provides a clear pathway for the continued use of high-quality and high-integrity international carbon credits **beyond 2040**, particularly to provide flexibility for hard-to-abate sectors.

Domestic Permanent Carbon Removals (Artt.9c and 14)

European domestic permanent carbon removals are critical for reaching the EU's climate targets. While their introduction in the European Commission's proposal (Art.9c) is a positive step in this direction, several elements need to be further addressed to ensure that the framework can effectively support the development and deployment of carbon removals.

The integration of permanent carbon removals must safeguard the environmental integrity and scarcity of the EU ETS. Any increase in the gross cap and the resulting additional compliance space should be matched by the same amount of high-quality removals. However, there is a risk that revenues generated from allowance auctions will not be sufficient to procure the intended volume of removals, particularly in the early years when removal costs are expected to exceed EUA prices. Without adequate safeguards, this could undermine the ETS net emissions objective by creating an effective increase in the cap without a corresponding climate benefit. To address this challenge, the procurement mechanism could be supported by additional de-risking instruments, such as Carbon Contracts for Difference (CCfDs).

To provide the regulatory certainty needed for investment and project development, **the European Commission should publish the delegated acts setting out the detailed rules for the purchasing,**

auctioning and procurement of carbon removals as soon as possible, and no later than 12 months after the adoption of this Directive. In addition, to improve project bankability, the Commission should enter into offtake agreements with CDR suppliers no later than 2029. The procurement framework should ensure competitive procurement and appropriate cost controls, while including a robust correction mechanism in cases where contracted removals are not delivered as planned.

At the same time, the current proposed provision does not account for **biochar**, despite its formal recognition as a permanent carbon removal pathway under **Delegated Regulation (EU) 2026/285**, and provides **no clear justification** for this omission. The ETS framework should be aligned with this Delegated Regulation **to ensure policy coherence, regulatory consistency and equal treatment of all recognised permanent carbon removal pathways**.

Additionally, the Commission should also begin assessing the possible inclusion of **nature-based removals** under the EU ETS as soon as possible, with a view to providing greater regulatory clarity.

Finally, Eurogas welcomes the introduction of Article 14(1a), which allows operators to use CRCF-certified BioCCS removals they generate themselves to compensate for own fossil emissions. To maximise its impact and accelerate investment in permanent carbon removals, **this right should be extended to all ETS operators and all certified permanent carbon removal technologies recognised under the ETS, including DACCS generated units**. To preserve environmental integrity, a corresponding number of EUAs should be cancelled from the cap for each removal unit used where the project receives additional public support. Undertakings within the same corporate group should also be able to pool eligible permanent carbon removals for EU ETS compliance, subject to safeguards against double counting and robust MRV requirements.

Non-Permanent CCU and Carbon Accounting (Art.14(1))

Eurogas opposes the introduction of midstream accounting for RFNBOs as it would **create unnecessary regulatory burdens and be inconsistent with the existing GHG accounting methodologies for RFNBOs and low-carbon fuels**. In particular, the current legal framework governing synthetic fuels, based on the methodologies laid down in Delegated Regulation 2023/1185 and Delegated Regulation 2025/2359, requires CO₂ captured from Annex I ETS activities to have been taken into account upstream in an effective carbon pricing system in order to be deducted as ex-use emissions in the GHG methodology. If the ETS accounting point is shifted to the distribution stage for synthetic fuels, this condition would no longer be met: the fossil CO₂ would not have been accounted for at the point of capture and, consequently, the corresponding ex-use deduction could not be applied. As a result, synthetic fuels produced from such CO₂ could be unable to meet the required 70% GHG emissions savings threshold. This would create regulatory uncertainty and could jeopardise existing and future investments in CCU and synthetic fuels. If this approach is maintained, the subsequent need to amend those methodologies to accommodate midstream ETS accounting would add further regulatory complexity and undermine investment certainty for projects already under development.

Maintaining upstream accounting ensures that fossil CO₂ emissions are accounted once, at the point where they are generated and captured, in line with the “polluter-pays” principle and the existing ETS monitoring, reporting and verification framework. It therefore provides a clear and predictable carbon price signal while avoiding potential loopholes and inconsistencies across the value chain.

Moreover, **the proposed reference to the “activity of distribution” is not sufficiently clear**, raising questions regarding the scope of the new accounting point and the allocation of responsibility across the fuel supply chain (i.e., where fuels are imported, blended, stored, resold or supplied to final users). This could increase legal uncertainty, monitoring and enforcement challenges, as well as the risk of fraud and market distortions.

Any changes to the current accounting approach should therefore **be carefully assessed** against the existing GHG methodologies and, if adopted, accompanied by **appropriate grandfathering provisions** to protect ongoing investments and provide legal certainty for projects already under development.

In order to ensure that mixed CO₂ streams (partly fossil and partly biogenic) can be flexibly allocated to different end uses (e.g. CCU and CCS) based on the mass balance principle, the existing ETS MRRR rules should be revised. This flexible allocation should replace the current approach, which allocates emissions in proportion to the facility input (source stream) or the content of the CO₂ infrastructure transporting the CO₂, and which can prevent the full value of certain CO₂ streams from being realised.

Finally, the development of a market for non-permanent CCU products is closely linked to the **creation of a comprehensive CO₂ market and the availability of infrastructure, which in turn requires a supportive and coherent regulatory framework**. Eurogas welcomes the European Commission’s work to develop such a framework, notably through the upcoming CO₂ Markets and Infrastructure Package. However, the CO₂ market remains at an early stage of development, with limited projects and infrastructure currently in operation, largely due to the significant financial and regulatory challenges facing their deployment. Funding and de-risking measures are therefore needed to enable the early deployment of CO₂ markets and infrastructure and to support the development of viable business models for CCU and CCS.

Permanent CCU

To further incentivise the uptake of permanent CCU, the current list of permanent CCU products under the [ETS Delegated Regulation \(EU\) 2024/2620](#) – as it is currently primarily limited to CO₂ mineralisation in construction materials. It should be expanded to include other applications that result in permanent carbon sequestration, such as solid carbon derived from e.g., some low carbon hydrogen production pathways, or other processes used in manufacturing of permanent CCU products.

Business interruption Risk

[Please also refer to our [recommendations on the CO₂ market and infrastructure package](#)]

The business interruption risk or double penalty risk represents **a significant barrier** for the development of the CO₂ market and should be addressed to ensure that emitters are not exposed **to high impact, low probability events that could undermine their willingness to invest in carbon capture technologies**. In the event of major disruptions of a component of the CCUS value chain, in particular system outages related to CO₂ transport disruption or storage outages, emitters would have to surrender corresponding ETS allowances. In addition, they would still have their ship-or-pay obligations towards infrastructure operators that are not themselves at fault. In certain cases, depending on the design of the relevant scheme, capture projects may also lose financial support provided through national Carbon Contract for Difference (CCfD).

While part of this risk could potentially be reallocated contractually, **the failing operator or the emitter cannot reasonably be expected to bear alone the costs associated with the entire value chain**. Therefore, **public intervention appears necessary** to remove this barrier, which could otherwise become a significant obstacle to final investment decisions at this stage.

This could be better achieved if implemented at the EU level, to ensure a level playing field for projects under development across different Member States. In this regard, we believe that the forthcoming CO₂ Markets and Infrastructure Package and **ETS revision** represent the appropriate policy windows to address the potential risks that emitters may face, while at the same time supporting the deployment of CCUS projects and EU climate ambitions.

In this regard two complementary mechanisms could be envisaged:

- **A European guarantee fund** could be established to refund the cost of ETS allowances surrendered by emitters for business interruption in the CO₂ transport and storage infrastructure. Such a fund could be financed through a dedicated share of Member States' or EU ETS revenues. One possible approach would be to ring-fence dedicated funding through the Industrial Decarbonisation Bank to establish a pre-funded guarantee mechanism supporting first movers in the CCUS value chain. The mechanism should provide coverage based on predefined eligibility criteria and trigger conditions, ensure that available resources remain aligned with the level of risk coverage required by the market, and gradually transition to market-based risk-sharing solutions as the CO₂ market matures.
- **An EU ETS allowances reserve** drawing on the volume held in the Market Stability Reserve (MSR) could be envisaged. This deposit could be created through two potential mechanisms:
 - o First, a defined share of the allowances withdrawn annually from the market and transferred to the MSR could be redirected to a dedicated reserve;
 - o Second, in light of the European Commission's proposal to discontinue the automatic invalidation of allowances held in the Market Stability Reserve (MSR) above the 400 million allowance threshold, thereby preserving these allowances as a buffer to support future market stability, a portion of such allowances could be allocated to a dedicated emergency reserve.

Allocation of ETS revenues across energy vectors (Art. 10(3))

The current proposal put forward by the Commission requires Member States to allocate at least 50% of the revenues generated from the auctioning of allowances to support the decarbonisation of ETS sectors through one or more of the specified priority purposes. However, **the proposal does not currently recognise gases and hydrogen on an equal footing with electricity**, despite their potential to provide important and complementary solutions for the decarbonisation of industrial processes. Therefore, this should explicitly recognise the **continued role of natural gas for industrial processes and where technically and economically viable low-carbon alternatives are not yet available at scale**. Funding rules should remain technology-neutral and reflect the actual decarbonisation pathways and constraints faced by individual sectors.

We believe that all the revenues from the EU ETS should be fully reinvested in the transformation of sectors that are affected by it. Decarbonisation pathways vary significantly across sectors and installations, and **electrification is not always technically feasible or economically viable**. In this context, gas-based solutions, including biomethane-ready technologies, as well as hydrogen-based solutions and the enabling infrastructure required for their deployment, can play a crucial role in enabling a **realistic, cost-effective and technology-neutral transition**, while preserving industrial competitiveness. Emphasis should be placed on sector-coupling technologies and corresponding decarbonisation solutions, in particular renewable and low carbon gases and as well as the infrastructure required for this purpose, such as electrolyzers, storage facilities, LNG terminals and pipeline networks. At the same time, CCU and CCS, including the necessary transport and storage infrastructure, must be taken into account.

At the same time, **it is important to recognise the growing contribution of renewable and low-carbon fuels, including hydrogen derivatives, bio-LNG and e-LNG, to the decarbonisation of the maritime sector**. These fuels offer a credible pathway to reducing emissions from maritime transport, particularly in segments where direct electrification or other low-carbon alternatives remain technically challenging, commercially unviable, or unavailable at scale.

Benchmarks and Free allocation

Sector specific heat and fuel fallback benchmarks (Art. 10a(2))

The introduction of sector specific heat and fuel benchmarks for specific oil and gas activities represents a clear response to what Eurogas previously advocated. Currently, the fallback benchmarks group together installations from different sectors with different processes and possibilities for decarbonisation, which only creates additional costs for European facilities. In this regard, **a dedicated district heating benchmark** should be introduced. **The benchmark should reflect the scale, production capacity, seasonal heat demand and security-of-supply requirements** of large district heating systems, particularly those operating in Central and Eastern Europe. It should be based on technologies and operating conditions that can be realistically replicated in systems supplying large urban areas. The benchmark should also recognise the transitional role of natural gas in replacing coal-based heat generation, including its use in high-efficiency cogeneration, while preserving security of heat supply until renewable and low-carbon gases and other technically and economically viable decarbonisation solutions become available at scale.

The reduction rate should not be based solely on the performance of the 10% most efficient heat-generation installations. District heating comprises both generation assets and heat networks, whose temperature parameters determine which technologies can be deployed. Low-temperature renewable and zero emission heat sources cannot be directly integrated into large, high-temperature networks without prior investment in network modernisation, heat storage, electricity-grid connections and customer-side infrastructure. **The methodology should therefore reflect the technical characteristics and the overall transformation pathway of the entire district heating system.**

The same principle should apply to energy-intensive industrial processes currently covered by the heat and fuel fallback benchmarks. In particular, alumina refining requires large volumes of continuous high-temperature process heat and steam, which in integrated installations can be supplied through gas-fired highly-efficient combined heat and power (HE-CHP). These processes are currently benchmarked against installations from fundamentally different sectors with very different technical characteristics and abatement possibilities. A dedicated benchmark for alumina refining should therefore be developed, reflecting the actual heat requirements, process constraints and realistic decarbonisation pathways of the sector.

More generally, the development of sector-specific fallback benchmarks should recognise where natural gas remains technically necessary for high-temperature industrial heat and where viable alternatives are not yet available at commercial scale. Benchmark trajectories should reflect realistic technological progress rather than assuming that all industrial heat applications can decarbonise at the same pace.

Maintain Free Allocation for District Heating at 30% until 2040

Eurogas calls for **free allocation for district heating to remain at 30% of the quantity determined pursuant to Article 10a until 31 December 2040**, rather than being gradually phased out after 2030. By 31 December 2038, the Commission should assess whether and under what conditions free allocation could be gradually reduced after 2040. The assessment should reflect the different starting points, technical conditions and decarbonisation pathways of all Member States, as well as the availability and affordability of renewable and low-carbon gases and other decarbonisation solutions. It should also examine the potential impact of any phase-out on heat prices for households and other final consumers.

Maintaining free allocation is particularly important for district heating systems that are replacing coal with natural gas, including through high-efficiency cogeneration. This transition delivers significant and rapid emission reductions while maintaining security of heat supply, but gas-fired assets will continue to incur EU ETS costs until renewable and low-carbon gases become available at scale and at affordable prices. District heating also performs an essential social and public-service function. Unlike industrial production, heat supply cannot be relocated outside the EU or discontinued when it becomes unprofitable, as operators must ensure continuous and secure heat supply to households, hospitals, schools and other essential consumers. Free allocation should therefore help limit EUA compliance costs, preserve capital for further decarbonisation and avoid disproportionate increases in heating costs.

Conditionality rules for the free allocations (Art.10a (3)(b) and (3)(c))

The proposed conditionality attached to the free allocation are not feasible for all sectors, particularly where the necessary enabling infrastructure, technologies or market conditions are not yet available. **Free allocation is a carbon-leakage safeguard and should not be transformed into a mandatory investment obligation, if enabling conditions are not in place.** Requiring installations to invest an amount equivalent to the economic value of the free allocation received risks weakening that protection, particularly for hard-to-abate sectors. For example, an installation may have no technically mature decarbonisation project that can be implemented within the relevant five-year period, or the available solution may entail costs far exceeding the value of the allowances received. In such cases, the installation would lose part of its carbon-leakage protection for reasons largely outside its control, without this necessarily resulting in additional emissions reductions.

The conditionality criteria should therefore take into account the **availability of infrastructure and technologies, as well as the cost-effectiveness of the available decarbonisation options compared with the EU carbon price.** In particular, the criteria should reflect the realistic timeline for the large-scale and commercially viable availability of renewable and low-carbon gases across the Union.¹ Future implementation of conditionality criteria should also be developed in a way that appropriately reflects the specific circumstances of underground gas storage facilities, including natural gas-driven compressor stations, during the transition towards low-carbon alternatives, where technically, economically and infrastructure-related constraints may limit the immediate availability of low-carbon alternatives.

The implementation of decarbonisation investments should only be required where there is a **viable business case and the necessary enabling conditions are in place.** Otherwise, the conditionality will only disproportionately penalise sectors that face structural barriers to decarbonisation, rather than incentivising emissions reductions.

Funding

Industrial Decarbonisation Bank & Investment booster (Art 10cc, 10cd and 10 ce)

Eurogas supports the establishment of the Industrial Decarbonisation Bank (IDB). However, the current provisions leave several important issues insufficiently addressed.

Greater clarity is needed on whether IDB will support both CAPEX and OPEX. Industrial decarbonisation projects often involve not only significant upfront CAPEX, but also structurally higher OPEX once low-carbon or renewable technologies are deployed. The current proposal and Impact Assessment appear somewhat inconsistent on this point, referring in some places to support for both CAPEX and OPEX, while elsewhere focusing more narrowly on the funding gap. The framework should therefore explicitly allow support for both where necessary to make industrial decarbonisation projects economically viable.

¹ On the insufficient availability of renewable hydrogen and biomethane, as well as the slow progress on such projects, see: ACER, [Decarbonisation of the EU's natural gas market](#), 2026 Monitoring Report, 23 June 2026.

The **level of funding available under the IDB will ultimately depend on future carbon prices**, as support is linked to the revenues generated from the auctioning of the allowances reserved for the mechanism. **This may create uncertainty regarding the scale and predictability of funding available to projects.**

Several eligibility criteria and implementation requirements warrant further assessment, including the proposed timelines for project delivery, **which may not adequately reflect the complexity and long lead times** associated with large-scale industrial decarbonisation projects, and the level of safeguards required (such as the completion bonds). The Terms and Conditions should also provide appropriate flexibility where project implementation is delayed by factors outside the control of the beneficiary, such as permitting, infrastructure availability or supply-chain constraints. Such delays should not automatically result in the loss or reduction of support.

Moreover, **the Investment Booster** should be fully open to network infrastructure and manufacturing supply chains, including infrastructure and equipment supporting the deployment of technologies such as electrolyser manufacturing.

Finally, there is a **need for a more explicit recognition of the role that the IDB can play in de-risking investments across the carbon capture, utilisation and storage (CCUS) value chain** (*see also section on the business interruption risk*). By supporting the deployment of CO₂ capture, transport, utilisation and storage infrastructure, the IDB can help unlock investment, accelerate project development and facilitate the large-scale deployment of CCUS technologies, which are essential for the decarbonisation of hard-to-abate sectors.

The design of the IDB and Investment Booster should also ensure that **support effectively reaches sectors facing the greatest decarbonisation and competitiveness challenges.**

Modernisation Fund (Art.10d)

We welcome the proposed increase in funding allocated to priority investments and the **expansion of eligible activities** under the Modernisation Fund. In particular, the inclusion of carbon capture, utilisation and storage (CCUS), biogas and hydrogen infrastructure is an important step towards enabling a broader range of decarbonisation pathways and supporting the deployment of key technologies required to meet the EU's climate objective.

Nonetheless, **concerns remain on the proposed reduction of the Modernisation Fund from 4.5% to 2-2.5% of the ETS cap**. Given the scale of investment required to modernise energy systems, decarbonise industry, deploy clean technologies and reinforce strategic infrastructure, such a reduction risks undermining the Fund's effectiveness. **The allocation should therefore be maintained at a minimum of 4.5% of the ETS cap** to ensure sufficient support for the transition and to avoid widening disparities between Member States.

Further **clarification is also needed regarding the proposed requirement to achieve a 20% reduction in energy consumption**. This criterion should apply only to the specific project, process, or asset benefiting from support, rather than to the entire installation or company. Applying the requirement at installation level **could unintentionally prevent essential investments in enabling infrastructure, including energy, transport, storage and CO₂ networks**, thereby slowing rather than accelerating decarbonisation efforts.

The exclusion of high-efficiency gas cogeneration projects, particularly those that are biomethane-ready, raises significant concerns. **Such technologies can contribute to emissions reductions while ensuring security of supply and supporting the gradual phase-out of coal**, especially in district heating systems in several Member States. This exclusion should be replaced with strict eligibility criteria for transitional fuels.

Regulatory clarity

The European Commission proposal introduces **several fundamental changes to the ETS Directive**. However, many of these changes rely on further Commission action through delegated acts, including on the operating model of the central purchasing facility, the Investment Bank and the Investment Booster. **In this regard, we strongly call on the Commission to adopt and implement these acts as soon as possible**, in order to provide regulatory clarity, give investors and operators greater visibility, and unlock the investments needed to support industrial decarbonisation.