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e-NG Coalition Response to the European Commission's Proposal for a Revision of the EU ETS

The e-NG Coalition welcomes the opportunity to comment on the European Commission's proposal to revise the EU ETS.

The e-NG Coalition is a **global alliance representing the value chain of e-methane (e-NG)**, a renewable fuel of non-biological origin (RFNBO).

Europe is currently the leading region for e-NG projects by number and the second largest by projected production capacity. RFNBOs, including e-NG and e-LNG, will be needed to decarbonise hard-to-abate sectors and to contribute to the EU's security of supply and resilience.

The proposal contains several elements that could strengthen the business case for e-NG: a dedicated support mechanism for sustainable maritime fuels (SMFs), a midstream accounting approach for carbon in synthetic fuels, and broader access to ETS-funded financing. Some of these elements need to be clarified or adjusted, however, if they are to provide legal certainty, avoid unnecessary administrative burden and support the scale-up of RFNBOs.

Key recommendations:

- **Make the Sustainable Maritime Alternative Propulsion (SMAP) mechanism bankable.** The proposed support rates are welcome, but the mechanism will not support RFNBOs as intended without changes. We recommend expanding the reserve to 220 million allowances and we call for at least 50% of the 220 million SMAP allowances to be ring-fenced for RFNBOs, with unused allowances carried over to later years. We also call for multiannual allocation commitments linked to long-term fuel supply agreements modelled on the mechanism for aviation under Article 3c(6).
- **Clarify the carbon accounting approach for synthetic fuels.** The shift to midstream CCU accounting requires an EU-level definition of "distribution" and of the liable entity. DAC and qualifying biogenic CO_2 should be explicitly zero-rated throughout the value chain, the accounting of mixed CO_2 stream emissions should

be clarified, and monitoring should be simplified. The framework should not systematically favour CCS over CCU.

- **Align the ETS with other EU and international decarbonisation frameworks.** The ETS, FuelEU Maritime, RED and future IMO measures should share definitions, sustainability criteria, certification and mass-balance rules. ETS treatment of captured CO_2 should be aligned with Delegated Act 2023/1185. The same RFNBO volume should not be double charged. Compliance value under one framework should not reduce support available under another.
- **Strengthen investment support for RFNBO production and infrastructure.** RFNBOs and their enabling infrastructure should be explicitly eligible under the Innovation Fund, the Industrial Decarbonisation Bank, the Modernisation Fund and national ETS revenues. e-NG and e-LNG should be named in Articles 10d and 10(3) alongside biomethane, renewable hydrogen, and ammonia.
- **Maintain a strong carbon price.** A credible and predictable carbon price is a key pillar of the RFNBO business case. The cumulative impact of changes to the LRF, the MSR, international credits and carbon removals on allowance scarcity and price formation should be assessed. Flexibility measures should not weaken long-term decarbonisation incentives. In particular, we support a stronger cap trajectory from 2036, a proportional rather than binary fallback for international credits, and a stable Market Stability Reserve.

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1. Make the Sustainable Maritime Alternative Propulsion (SMAP) mechanism bankable (Article 3gaa)

The proposal rightly identifies the price gap between fossil and SMFs as a main barrier to their deployment. The SMAP mechanism is a welcome response to this barrier.

Differentiated support rate

We strongly support the differentiated support rates in Article 3gaa(9): **90% of the remaining price differential for RFNBOs**, 80% for low-carbon hydrogen and fuels, and 55% for biogas and advanced biofuels. Given their early stage of commercial deployment, higher production costs and greater investment risks, RFNBOs require stronger support than other more mature SMF pathways.

Ring-fencing RFNBO allowances

However, the current design does not guarantee that RFNBOs will effectively benefit from this support. In the absence of a dedicated allocation, the limited reserve of 110 million allowances may be absorbed by more mature fuels requiring lower support per tonne, reducing the mechanism's impact on the deployment of innovative renewable fuels.

The reserve should be **doubled to 220 million allowances**. Expanding the total pool ensures that targeted RFNBO allocations offer the long-term revenue visibility needed for project developers to achieve final investment decisions (FIDs).

A dedicated RFNBO sub-bucket within the SMAP reserve, representing **at least 50% of the total allowances pool**, would ensure that support is directed towards RFNBO deployment, which faces the largest cost differential and greatest scale-up challenges. Allowances in this sub-bucket that are not allocated in a given year should be **carried over to subsequent years** rather than redistributed to other fuels. RFNBO volumes will reach the market later than those of more mature fuels; without a carry-over, the reserved share could be lost in the early years, before RFNBO production capacity is operational.

Additionally, the SMAP should remain focused on accelerating the uptake of SMFs. Broadening eligibility to vessel hardware, retrofits, and other equipment would place additional pressure on the limited allowance reserve and reduce the support available for fuels facing the largest cost differential, particularly RFNBOs. The design of the mechanism should therefore safeguard sufficient resources for renewable fuel uptake and avoid diluting its core purpose. Investment in vessel hardware, retrofits, and other equipment could be supported more appropriately through instruments such as the Innovation Fund, allowing SMAP resources to remain focused on accelerating SMF uptake.

Bankability

As drafted, the mechanism also remains difficult to rely on for investment decisions. Support is granted ex-post for renewable fuels already consumed, and the final allocation remains uncertain until after the purchase decision, as allowances may be reduced pro rata if demand exceeds the available reserve. This limits the ability of shipping companies to enter into long-term fuel supply agreements and undermines the bankability of projects requiring long-term offtake commitments to reach FID. Indeed, an RFNBO plant needs long-term offtake agreements to reach FID, and a shipping company needs to know what support it will receive before it commits to buying the fuel.

To address this, the SMAP mechanism should provide for **ex-ante multiannual allocation commitments** linked to long-term fuel supply agreements, like the approach proposed for the aviation sector under Article 3c. Under that provision, where an aircraft operator demonstrates a **binding long-term fuel supply contract** valid for at least three years, the allowances covering the price difference for each year of the contract, up to a maximum of five years, are reserved for that operator, within an overall limit of 10 million allowances. This provides certainty over support levels for the duration of the agreement. Applying a similar approach to maritime transport would improve investment certainty without increasing the overall ETS allowance envelope.

However, long-term allocation commitments alone may not be sufficient if key parameters determining support levels remain uncertain throughout the contract period. Operators need visibility on the reference prices for both renewable and conventional fuels to assess the level of support they can expect over the duration of the agreement.

Reference prices and remaining price differentials

Several parameters left to delegated acts under Article 3gaa(14) will largely determine how much support RFNBOs actually receive. They should be set out in the Directive or at least framed clearly within it. These delegated acts should be adopted sufficiently in advance of 2028 to provide certainty to market participants and allow the mechanism to become operational from the outset.

Reference prices should be **pathway-specific** and reflect the relevant fossil comparator. For e-LNG, fossil LNG may be a more appropriate benchmark than a weighted average of maritime fossil fuels. This would require amending Article 3gaa(5), which currently sets the fossil benchmark as a weighted average reflecting the actual mix of maritime fossil fuels reported under Regulation (EU) 2015/757.

The term "**remaining price differential**" should be defined. If avoided ETS costs, FuelEU Maritime penalty savings or the RFNBO multiplier benefit are deducted first, effective coverage could be reduced. Relatedly, Article 3gaa(12) allows the allocation to take into account possible

support from other schemes at national, Union or international level. The Directive should clarify that compliance value generated under FuelEU Maritime, including the RFNBO multiplier, is not treated as support from another scheme for this purpose.

Recommendations:

- Increase the SMAP reserve to 220 million allowances.
- Ring-fence at least 50% of SMAP allowances for RFNBOs with unused allowances carried over to subsequent years.
- Introduce multiannual allocation commitments linked to binding long-term fuel supply agreements modelled on Article 3c(6).
- Establish pathway-specific reference prices and comparators for different renewable fuels.
- Clarify the definition of the "remaining price differential".
- Clarify that compliance value under FuelEU Maritime is not treated as support from other schemes under Article 3gaa(12).

2. Clarify the carbon accounting approach for synthetic fuels

The proposal appropriately moves from a purely upstream approach, under which captured CO_2 is treated as emitted at the point of capture, towards downstream and midstream accounting for CCU. For synthetic fuels, carbon would be accounted for at the point of distribution rather than combustion. Further clarification is needed to provide legal certainty and ensure harmonized implementation across Member States.

Definition of distribution and liable entity

Although Article 14(1) provides that carbon embedded in synthetic fuels is deemed emitted at the point of distribution, neither "distribution" nor the liable entity is defined. This is particularly important for e-NG and e-LNG, which may be injected into the gas grid, traded through multiple intermediaries, blended, delivered through LNG terminals or supplied as bunker fuel.

A **single Union-level definition** is necessary for the midstream approach to function as one internal market rule rather than 27 different national rules. Distribution should mean "**placing the synthetic fuel on the market for consumption within the Union by a fuel supplier**". Synthetic fuels placed on the market for consumption outside the Union should also be excluded from the obligation, so that EU-produced e-fuels are not charged in the EU and then priced again in the destination market.

Double charging prevention

The Directive should also state expressly that the **same carbon cannot be charged more than once**. Maritime transport is itself an Annex I activity subject to surrender: without an express rule, the same volume of synthetic fuel could be charged at distribution and again through the vessel's surrender obligation. The treatment should also be consistent with FuelEU Maritime. Making this a requirement of the Directive, rather than leaving it to implementing acts, would eliminate that risk.

Atmospheric and biogenic CO_2

The proposal does not explicitly address CO_2 captured from ambient air (DAC) and leaves significant elements of the treatment of biogenic CO_2 to implementing acts. Given that investment decisions are being taken now, greater certainty is needed.

The proposal should explicitly state that **CO_2 captured directly from the atmosphere and qualifying biogenic CO_2 are zero-rated throughout the value chain**. No surrender obligation should arise where such carbon is incorporated into synthetic fuels. When a synthetic fuel is subsequently used, the resulting CO_2 emissions should retain the zero-rated status that the carbon would have had at its point of origin. Sustainability verification should rely on existing RED requirements and should not be duplicated under ETS monitoring rules.

Mixed CO_2 stream emissions accounting

The treatment of captured CO_2 from mixed streams is of fundamental importance for the development of carbon capture, utilisation and storage value chains. Therefore, for installations capturing CO_2 from mixed fossil and biogenic sources, the implementing rules on the order of capture will be critical.

Where a CO_2 stream contains both zero-rated and non-zero-rated CO_2, the physical mixing of those quantities should not prevent their identification and allocation for accounting purposes.

Provided that the respective quantities can be reliably monitored, determined and accounted for, operators should be able to allocate captured CO_2 to the corresponding zero-rated and non-zero-rated quantities present in the mixed stream. Such allocation **should not depend on the physical separation** of CO_2 molecules or on the sequence in which CO_2 is captured from the mixed stream.

At the same time, the total quantities allocated to each category should remain limited to the respective quantities demonstrably present in the mixed stream, thereby ensuring **robust accounting and avoiding double counting**.

This approach would provide the necessary flexibility for the operation of carbon capture, utilisation and storage value chains involving mixed streams, while maintaining environmental integrity and traceability.

Proportionate monitoring requirements

To make midstream accounting workable, the proposal extends Annex I to cover the capture of carbon for use, its processing, liquefaction and transport. These are precisely the front-end steps of an e-NG project.

Becoming an Annex I activity triggers a greenhouse gas emissions permit, a monitoring plan, metering, annual verified reporting and a registry account. While this does not create an additional carbon cost, because the surrender obligation remains deferred to fuel distribution, it can impose a significant administrative burden on the small, distributed biogenic CO_2 sources on which the e-NG value chain depends, even where the CO_2 is zero-rated and will never generate a surrender obligation.

Monitoring is intended to ensure that carbon is accounted for once and at the appropriate point in the value chain. Where qualifying biogenic or atmospheric CO_2 will never be subject to a surrender obligation, full permitting requirements add administrative cost without a corresponding environmental benefit. Traceability is already ensured through existing RFNBO certification requirements under the RED, which require operators to demonstrate the origin of the CO_2.

Simplified monitoring and reporting requirements should therefore be introduced for operators handling qualifying biogenic or atmospheric CO_2. Such simplified monitoring and reporting requirements for activities related to the capture, processing, liquefaction or transport of CO_2 should be proportionate to the scale of the activity and should not impose unnecessary administrative burdens on smaller operators, while maintaining the traceability necessary to substantiate the origin of the CO_2.

Avoid unintentionally favouring of CCS over CCU

Both permanent storage (Article 12(3a)) and utilisation in synthetic fuels (Articles 12(3b) and 14(1)) benefit from surrender relief at the point of capture, although much of the detailed treatment of CCU is left to delegated and implementing acts. Article 14(1a), however, gives storage an additional advantage: operators, aircraft operators and shipping companies may compensate their fossil emissions with certified permanent removal units generated from the storage of their own biogenic emissions. An emitter that stores its biogenic CO_2 therefore gains a second source of value, whereas the same CO_2 supplied for e-NG production benefits only from zero-rating.

While this may support carbon removals, it also creates an additional revenue stream for storage, increases competition for limited biogenic CO_2 resources and may reduce incentives to direct those resources towards synthetic fuel production. It could also reduce incentives for fuel switching if companies can rely on removals instead.

The European Commission should therefore **ensure that the framework does not systematically favour CCS over CCU**. It should monitor the availability and cost of CO_2 feedstocks for CCU. **Fuel switching should remain the primary compliance pathway**, with removals addressing residual emissions. To that end, Article 9c(5), which ensures that BioCCS removals used directly under Article 14(1a) are deducted from the central purchase programme rather than added to it, should be retained, and direct compensation under Article 14(1a) should remain limited to operators' own biogenic emissions.

Recommendations:

- Define "distribution" at EU level and identify the liable entity.
- Exclude synthetic fuels released for consumption outside the Union, and state expressly in the Directive that the same carbon cannot be charged more than once.
- Explicitly zero-rate DAC CO_2 and qualifying biogenic CO_2 throughout the value chain.
- Introduce simplified monitoring and reporting requirements for operators handling qualifying biogenic or atmospheric CO_2.
- Rely on existing RED/RFNBO certification systems to ensure traceability where appropriate.
- Ensure the ETS framework does not systematically favour permanent storage over utilisation.
- Allow reliably monitored zero-rated and non-zero-rated quantities in mixed CO_2 streams to be allocated for accounting purposes without requiring physical separation.
- Retain Article 9c(5) and keep direct compensation under Article 14(1a) limited to operators' own biogenic emissions.

3. Align the ETS with other EU and international decarbonisation frameworks

The business case for RFNBOs and SMFs will be shaped by the EU ETS, FuelEU Maritime, the Renewable Energy Directive and its secondary legislation, and future IMO measures, rather than by an individual instrument in isolation. To provide a **coherent and effective regulatory and investment framework**, these instruments should rely on **consistent definitions, sustainability criteria, certification requirements and mass-balance methodologies**.

Fundamentally, the same RFNBO volume should not incur duplicate compliance costs across overlapping regulatory frameworks. Equally, the compliance value generated under one framework should not diminish the level of support or recognition available under another, where both instruments pursue complementary decarbonisation objectives.

IMO

We welcome the requirement in Article 3gg for the European Commission to assess the coherence between the EU ETS and future IMO measures, including options to avoid double payment where emissions are simultaneously priced under both the EU ETS and a future IMO mechanism, while avoiding any environmental backsliding. However, the **assessment should extend beyond avoiding double payment** and consider how the combined regulatory framework can preserve and appropriately reward the climate value of RFNBOs and SMFs.

Delegated Act 2023/1185

Consistency should also extend to the treatment of captured CO_2. The ETS treatment of CO_2 incorporated into synthetic fuels and the methodology in Delegated Act 2023/1185, in particular point 10 of its Annex, should be aligned. Divergent terminology or methodologies could result in the same carbon molecule being treated differently under the ETS and RED frameworks. Such inconsistencies would also generate unnecessary complexity and confusion for market participants and investors, thereby undermining the predictability required for investment in RFNBOs.

Ensuring **consistency across all frameworks** will reduce administrative complexity, strengthen legal certainty and prevent inconsistent treatment of the same renewable fuel volumes across different regulatory regimes.

Recommendations:

- Align definitions, sustainability criteria, certification requirements and mass-balance rules across all decarbonisation frameworks.
- Promote interoperability between certification and accounting systems to reduce administrative burden and increase legal certainty for investors.
- Prevent double charging of the same RFNBO volumes across overlapping regulatory regimes and ensure that compliance value generated under one framework does not reduce support or recognition under another.

4. Strengthen investment support for RFNBO production and infrastructure

While the proposed SMAP mechanism is intended to support the purchase and use of renewable fuels in the maritime sector, it does not by itself address the investment challenges faced by project developers seeking to bring new RFNBO production capacity to market. The revision introduces and modifies a range of funding and investment instruments that could play an important role in accelerating the deployment of RFNBO production capacity and associated infrastructure. These include the Innovation Fund, the proposed Industrial Decarbonisation Bank, the Modernisation Fund and the targeted use of national ETS revenues.

The design and implementation of these instruments should ensure that **RFNBOs, including e-NG and e-LNG, are explicitly eligible for support** alongside the enabling infrastructure required for their deployment. This includes renewable hydrogen production, CO_2 capture, transport and storage infrastructure, fuel synthesis facilities, and other technologies necessary to scale RFNBO production.

Innovation Fund and Industrial Decarbonisation Bank

We welcome the expanded focus on industrial decarbonisation, low- and zero-carbon fuels, CCUS, and maritime decarbonisation throughout the proposed funding mechanisms. The Innovation Fund and the proposed Industrial Decarbonisation Bank could provide valuable support for both capital-intensive investments and operational expenditure associated with first-of-a-kind and early commercial RFNBO projects. Clear eligibility criteria and appropriate consideration of renewable fuel pathways will be essential to ensure these instruments effectively support deployment at scale.

Modernisation Fund and national ETS allocations

Likewise, we welcome the proposed expansion of the Modernisation Fund (Article 10d) and its strengthened support for renewable energy, hydrogen and CO_2 infrastructure, and CCU. However, while Article 10d explicitly recognises biogas and biomethane among the renewable energy sources eligible for support, it does not explicitly refer to e-NG or other RFNBOs.

Revised Article 10(3), which would require Member States to allocate at least 50% of ETS revenues to the decarbonisation of ETS-covered sectors, including maritime transport, can play an important role in developing the hydrogen and CO_2 value chains required for RFNBO production. However, while the proposal explicitly refers to renewable hydrogen and ammonia, e-NG and e-LNG are not mentioned. To ensure a technology-neutral framework and recognise the contribution of all SMFs and RFNBO pathways to maritime decarbonisation, e-NG and e-LNG should be explicitly mentioned in both Articles 10d and 10(3) alongside biomethane and ammonia.

We would also support raising the minimum share of revenues earmarked for the decarbonisation of ETS sectors above 50%, which would increase the funding available for these priority purposes.

Recommendations:

- Recognise RFNBOs as eligible technologies under all funding mechanisms and explicitly include e-NG and e-LNG in Articles 10d and 10(3) alongside biomethane, renewable hydrogen, and ammonia.
- Support raising the minimum share of ETS revenues earmarked for the decarbonisation of ETS sectors above 50%.

5. Maintain a strong carbon price

A **credible and predictable carbon price** is a key pillar of the investment case for RFNBOs. It provides a key signal for investment decisions, reduces the competitive advantage of conventional fuels by internalising their carbon costs, and generates the revenues that underpin ETS-funded support mechanisms.

The proposal introduces several new elements that could affect carbon-price formation, market liquidity and long-term investment incentives. These include adjustments to the post-2030 emissions trajectory through changes to the Linear Reduction Factor, changes to the operation of the Market Stability Reserve, the possible use of international credits, and the integration of permanent carbon removals. While each measure pursues specific policy objectives, their **cumulative impact on allowance scarcity and carbon-price formation should be carefully assessed**.

The revision should ensure that the EU ETS continues to provide an effective carbon price on emissions while maintaining a clear and durable investment signal for renewable technologies. Measures intended to increase flexibility, improve liquidity or manage compliance costs should not inadvertently undermine the incentives required to switch away from conventional fuels or weaken the long-term visibility needed for investment decisions.

A credible carbon price improves the competitiveness of renewable fuels relative to fossil alternatives because the RFNBO business case depends partly on the gap between production costs and the carbon cost borne by conventional fuels. The ETS review should therefore seek to strengthen predictability and investor confidence while preserving the integrity of the carbon-price signal. The European Commission should carefully evaluate the combined impact of proposed flexibilities and ensure that the final framework continues to support emissions

reductions and long-term investment in Europe's industrial and transport decarbonisation objectives.

Specifically, the e-NG Coalition supports a **stronger cap trajectory from 2036**, when RFNBO production is expected to scale up and its business case will depend most on allowance scarcity (e.g., a linear reduction factor of 2.3% from 2036, as proposed in the ENVI draft report, rather than the 1.7% proposed by the European Commission). It also supports replacing the binary fallback in Article 9b(4), under which the linear factor reverts to 2.7% from 2036 if international credits are not available, with a **proportional adjustment** reflecting the volume of credits available, avoiding a cliff edge that undermines predictability.

Finally, the twelve-month interval between successive releases from the Market Stability Reserve under Article 29a should be maintained, as shorter intervals would allow repeated releases that deplete the reserve and weaken the price signal.

Recommendations:

- Assess the cumulative impact of changes to the LRF, MSR, international credits and carbon removals on allowance scarcity and carbon-price formation.
- Ensure that measures aimed at improving flexibility or reducing compliance costs do not weaken long-term decarbonisation incentives.
- Support a stronger cap trajectory from 2036, when RFNBO production scales up.
- Replace the binary international-credits fallback in Article 9b(4) with a proportional adjustment.
- Maintain the twelve-month interval between Market Stability Reserve releases under Article 29a.

Conclusion

The e-NG Coalition supports the European Commission's revision of the EU ETS but the final design will determine whether it unlocks investment in RFNBOs.

As drafted, several proposed flexibilities could weaken the carbon price signal, leaving RFNBO projects more reliant on ETS-funded support to reach bankability. While more allowances auctioned means more revenue for decarbonisation, a lower carbon price also means more projects will need that support to become bankable. Unless the additional funding reaches the fuels facing the largest cost gap and the projects requiring higher capital investments, the revision risks delivering less than expected.

Consequently, the e-NG Coalition recommends the following:

- **Make SMAP work for RFNBOs.** Increase the SMAP reserve to 220 million allowances, ring-fence at least half of the reserve for RFNBOs with carry-over of unused allowances, and support long-term offtake through ex-ante allocation.
- **Give the RFNBO and CCU value chain legal certainty.** Define "distribution" at EU level, zero-rate DAC and biogenic CO_2, and align ETS accounting with Delegated Act 2023/1185, FuelEU Maritime and future IMO measures.
- **Name e-NG, e-LNG, and other RFNBOs explicitly** across the funding mechanisms, alongside biomethane, renewable hydrogen and ammonia.
- **Protect the carbon price signal** by assessing the cumulative effect of the proposed flexibilities before they are adopted and by supporting a stronger cap trajectory from 2036, a proportional international-credits fallback and a stable Market Stability Reserve.

Getting these elements right will determine whether the revision unlocks European RFNBO production or leaves it stranded between a weaker price signal and support it cannot rely on.

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