

# Implementing act updating benchmark values for free allocation of emission allowances

## Carbon Market Watch's Feedback

### Key messages

The regular update of the benchmarks values for free allowances under the EU ETS is a necessary step to ensure that the last years of the free allocation system are fully coherent with the aim of a full phase-out by 2034 for all sectors, and provide the investment signals necessary to funnel funding into industrial decarbonisation.

For these reasons, Carbon Market Watch (CMW) welcomes the mandated update of the sectoral benchmarks and appreciates the efforts of the European Commission of maintaining the process rules-based against the continuous attacks of different stakeholders, especially in the context of the requests to “freeze” the benchmark values and getting rid of the cross-sectoral correction factor.

Against this backdrop, after attentively following the process for its revision within the Climate Change Policy Expert Group over the past months, we witnessed the progressive watering down of the text which ultimately will lead, as confirmed by the Commission itself, to an increase of free allowances to incumbent industrial sectors for a value of 4 billion euros.

The [Court of Auditors](#) has confirmed that free allocation hampers decarbonisation efforts. In 2024 alone, nearly [500 million allowances](#) were still handed out for free at a value of over €32 billion (when applying the average market price for 2024: €64.74/tonne of CO<sub>2</sub>). These are foregone revenues that member states won't be able to spend on climate action, on supporting vulnerable people, or on the transformation of the European economy.

Benchmark values must be updated with the long-term goal of phasing out the free allocation system, in line with the agreed-upon Carbon Border Adjustment Mechanism (CBAM) timeline and by gradually including more sectors under the CBAM scope.

### **Sector-specific fallback benchmark must be transparently justified**

The recitals of the draft Implementing Regulation announce the introduction of sector-specific fallback benchmarks: this approach could help tackle more effectively sectors that can electrify their processes (e.g. low-heat industrial processes) through more stringent benchmarks. It is important that the Commission maintains “one product=one benchmark” as a guiding principle when developing the new sectoral benchmarks: the process for adopting new benchmarks must be transparent, evidence-based, and allow for regular reviews that take into account technological developments in the sectors that will still remain under the so-called fallback benchmarks.

### **Avoid double compensation for indirect emissions due to the interaction with indirect cost compensation, in line with state aid guidelines.**

We urge the Commission to ensure that accounting for indirect emissions for the selected 16 sectors in the Annex to the Implementing Regulation won't lead to covering their indirect emissions through free allocation. This risks creating double subsidies for ETS installations who already receive indirect cost compensation (ICC) from their Member States. As the Commission itself stated, this new calculation methodology will result in EUR 4 billion in additional free allocations.

CMW also wishes to highlight how accounting for indirect emissions is already problematic in EU climate policy.

First, the ICC state-aid guidelines are overly generous in how they estimate indirect emissions (and supposed linked costs). The use of only fossil fuel generation capacity to determine the regional CO<sub>2</sub> emission factors does not fit the current trends in the power sector, and leads to even more overcompensation for industry. The ICC state aid framework is therefore not an appropriate mechanism to build upon.

Second, risks of skewing the benchmark in favour of those who use biomass must also be avoided. Biomass is still wrongly accounted as a zero-emitting source. Any incentives to burn biomass must be tackled rather than super-charged. We insist that this wrong

assumption is challenged in the EU ETS Directive and ultimately removed in the Renewable Energy Directive.

### **One product, one benchmark**

This implementing regulation still falls short of addressing the lack of full implementation of the “one product, one benchmark” principle: benchmarks such as grey clinker or the persisting exemption for hot metal do not reflect the existing decarbonisation technologies in the cement and steel sectors, providing instead further benefits to incumbent actors and outdated production processes. The goal of the benchmarking process, free allocation and indeed the entire EU ETS is to support decarbonisation, and incentivise climate action. That means frontrunners must be supported and protected more than dirty incumbents.

## **Contact**

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