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CEFS POSITION

ETS BENCHMARK UPDATE 2026-2030

The EU beet sugar sector uses the heat and fuel fallback benchmarks and, since 2025, process emissions have also been included under the EU ETS framework.

The proposed values for the fallback benchmarks for 2026–2030 are highly concerning for the European beet sugar sector given the severe market difficulties currently facing the industry. The tightening of the fallback benchmark values will further reduce free allocation precisely when the sector's capacity to absorb additional ETS costs is weakest. Since the end of quotas, the EU sugar sector has faced repeated crises and accelerating restructuring, with 21 factories closed since 2017, including six recently announced closures.

The sugar sector supports the EU's climate objectives and has the ambition to continue investing in decarbonisation and efficiency improvements, but these efforts require economic viability and a realistic regulatory framework. Increasing effective carbon costs through maximally tightened benchmark values will not meaningfully enhance decarbonisation incentives, as it is unlikely to materially raise EUA prices or improve the business case for energy efficiency and electrification. Instead, it risks eroding the sugar industry's investment capacity, thereby constraining its ability to fund decarbonisation projects.

The Commission bases its proposal on a panel representing the 10% most efficient sub-installations. This approach is not representative of industrial realities and fails to take into account the specific nature of fallback benchmarks.

For the initial definition of benchmarks, the ETS Directive states that: "the starting point shall be the average performance of the 10% most efficient installations in a sector or subsector in the Union in the years 2007-2008." However, fallback benchmarks are by nature cross-sectoral. Therefore, the concept of the "10% most efficient installations" cannot be applied in the same way as for product

benchmarks. This was recognised in 2011 when the fallback benchmarks were originally defined on the basis of an energy mix largely reflecting natural gas use.

For the calculation of the updated fallback benchmark values, the Commission nevertheless applied the same methodology as for product benchmarks, i.e. relying on the 10% most efficient installations despite the cross-sectoral nature of fallback benchmarks. This has resulted in a clear lack of representativeness of the selected installations, which accounted for only around 0.2% of heat consumption for the 2017-2018 dataset and approximately 1% for the 2021-2022 dataset.

Unlike product benchmarks, fallback benchmarks do not capture improvements in process energy efficiency. They only reward switching to lower-carbon energy sources. The current methodology does not sufficiently account for unequal access to decarbonised energy sources such as biomass or electricity, thereby creating a major representativeness and competitiveness bias between installations. This bias is clearly illustrated by the high proportion of installations with privileged access to biomass (wood, pulp and paper, etc.) among the benchmark setters for the two fallback benchmarks.

Furthermore, product benchmarks apply to sectors exposed to carbon leakage. In contrast, the fallback benchmark calculation currently includes sectors such as district heating networks, which are either not exposed to international competition or will no longer receive free allocation after 2030 because they are not considered at risk of carbon leakage.

We take note of the non-paper on alternative fallback benchmark values co-signed by Estonia, France, Germany, and Spain. We agree that clarity is needed regarding the introduction of sector-specific fallback benchmarks, since the concrete impact on sugar manufacturers remains unclear.

We support the idea in the non-paper of a targeted legislative proposal to address the issue of fallback benchmarks that is separate from the broader revision of the ETS Directive expected in July 2026. We believe this can be achieved within the current legal framework without amending the ETS Directive itself.

Indeed, Implementing Regulation (EU) 2021/447, notably Recital (3), treats fallback benchmarks and product benchmarks identically without recognising that the “10% most efficient installations” concept is not appropriate for cross-sectoral fallback benchmarks. This issue could therefore be corrected through a revised implementing regulation needed for the publication of the new value benchmark.

We propose that the update of the fallback benchmarks for 2026-30 should be based on the weighted average reduction of product benchmarks. Such an approach would provide a simple, rapidly implementable and representative methodology reflecting the overall evolution of sectors exposed to carbon leakage.

Given that free allocation for non-carbon leakage sub-installations will end by 31.12.2030, an alternative option could be to split the fallback benchmarks between carbon leakage (CL) and non-carbon leakage sectors, which would result in four fallback benchmarks: heat BM, CL; heat BM non-CL; fuel-BM, CL; fuel-B, non-CL). These benchmarks should be derived from the weighted average of the relevant sub-installations.

Notwithstanding the above, if sector-specific benchmarks are to be considered for 2026-30, then the fallback benchmarks should be split between carbon and non-carbon leakage installations and derived from the weighted average of the relevant sub-installations, i.e. not the 10% best performing.

In conclusion, the revision of the fallback benchmark values for 2026–2030 should not result in a disproportionate reduction of free allocation for sectors already facing acute economic pressures and limited short-term decarbonisation options. The European beet sugar industry remains committed to contributing to the EU's climate objectives and to investing in decarbonisation. However, these investments can only be delivered by economically viable companies. A methodology that produces benchmark values based on a small and unrepresentative subset of installations risks weakening the investment capacity of the sector without delivering meaningful additional emission reductions. It is therefore essential that the Commission adopts a more representative approach to updating fallback benchmarks, ensuring that the EU ETS continues to support both industrial decarbonisation and the competitiveness of carbon leakage sectors.