

Response to DGEC Consultation on the draft mechanism to incentivise the reduction of the carbon intensity of fuels (IRICC)

Energy Traders Europe welcome the opportunity to comment on the on the draft mechanism to incentivise the reduction of the carbon intensity of fuels (IRICC). Our answers to the Questionnaire issued by DGEC are reported below. We remain available to continue the discussion and provide all required information or clarifications.

Questionnaire

1. Do you have any comments on the trajectory of carbon intensity reduction targets and the renewable energy usage pathways in certain fuel sectors?

We support an ambitious decarbonisation agenda, aligned with the Renewable Energy Directive. **We welcome the decision to provide market participants and consumers with long-term visibility on targets**, which is essential to underpin investment and enable reliable price signals to emerge. It gives producers confidence in sustained demand and facilitates the structuring of long-term offtake agreements.

As expressed in our position paper "<u>Developing an internal market in renewable and low-</u> <u>carbon gases</u>", **we support the shift to GHG emission reduction targets**, for several reasons:

- It prioritises climate action by accelerating the production and uptake of the most climatefriendly energy carriers;
- It enables suppliers and consumers to value fuels based on their decarbonisation potential, consistently with the core objective of EU policy and international climate agreements;
- It strengthens price signals for carbon-neutral or even carbon-negative fuels;
- It is inherently technology neutral.

Regarding sector-specific targets, while we recognise their rationale, **we recommend** allowing the tickets generated by excess supply of renewable fuels in one sector to stay fully tradable across all sectors to avoid capping the potential contribution of a given

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decarbonisation solution towards the overall targets. This approach, also adopted in other Member States (e.g., Germany), would support the achievement of overall targets at the lowest possible cost to the French economy.

2. Do you believe the application of dedicated targets to certain sectors should be modified? If so, how and why?

We do not necessarily question the function of sectoral targets, but we warn against any limitation to the tradability of the excess tickets generated in one sector towards the targets of the other sectors. Any limit would increase the cost of decarbonisation, the efficiency of the market and ultimately the progress towards reduced emissions.

3. How should the aviation sector interact with the mechanism?

Compliance with EU law should be main policy determinant in this respect. In this sense we doubt that separate targets for the aviation sector are the correct way forward.

4. How should the maritime sector interact with the mechanism?

First, we note that Aarticle 6-3 of the draft Arrêté only considers biomethane supplied to the transport sector for stations distribution purposes. In order to allow biomethane use into the marine sector, **the Arrêté would need to ensure that bunkered biomethane will also be considered as biomethane supplied to the transport sector**. Most of marine bio-LNG is indeed supplied via bunkering. As such, the final Arrêté would need to reflect this business reality (both via stations and bunkering).

Second, we would like to emphasize the importance of **continuing to allow equivalence liquefaction in France**, as a legitimate liquefaction path for the production of bioLNG based on biomethane injections anywhere in the EU single mass balancing system. This is **particularly important for the maritime sector which currently faces limited decarbonisation solutions and will need to rely on bioLNG** as the lowest cost option. Not allowing mass-balance liquefaction would deprive the maritime sector of a key decarbonisation solution.

Consequently, we invite the French Government to advocate towards the European Commission on the definition of a reasonable and appropriate methodology for the calculation of the additional carbon intensity to be assigned to mass balance liquefaction – in the context of the ongoing review of Implementing Regulation 2022/966 on rules to verify sustainability and greenhouse gas emissions saving criteria & the Delegated Act



for the revision of RED Annexes V and VI – with a view to the overall economic and environmental implications of unnecessarily stringent conditions. We stress that the existing default method under the voluntary scheme system rules results in a particularly low carbon intensity for bioLNG produced by equivalence in the French interconnected LNG terminals due to the low carbon content of the French electricity mix.

Excessive penalisation would in fact increase the costs of decarbonisation faced by consumers as additional smaller scale, less efficient physical liquefaction facilities would need to be added. As fossil LNG is bound to flow to Europe in the next decades, regasification of natural gas will continue, while more biomethane will have to be liquefied in less efficient infrastructure, if backhaul liquefaction services in existing LNG terminals will not be rolled out or allowed. This inefficiency will lead to less biomethane used by European consumers, rather than more.

5. Do you believe the penalty levels are appropriately set? If not, why, and what penalty levels would be more suitable?

Penalties should serve two functions: drive virtuous behaviour by making fossil alternatives more expensive and so ensure the attractiveness of the market against alternative ones. At the same time penalties should not pose undue burden on consumers. Overall, we regard the level set in the proposal as appropriate.

6. Do you have any comments regarding the structure of this mechanism and its sub-targets as an incentive for triggering investment in the production of advanced biofuels and synthetic fuels? Do you believe it should be adjusted to better meet this goal while remaining a faithful transposition of European regulation? What complementary measures do you consider necessary?

N/A

7. What are your views on the usage pathways for advanced biofuels and renewable hydrogen? Do you consider it preferable to set a 1.5% RFNBO target in 2030 along with a 1.55% target for advanced biofuels, or rather a 0.8% RFNBO target with a 2.22% target for advanced biofuels?

We note that a fully technology neutral approach would deliver a more efficient overall decarbonisation outcome. On this basis, sticking to levels defined at the EU level is probably the wisest and more balanced approach to avoid excessive cost to the French economy.



- 8. The new mechanism, which will be entirely managed through a digital platform, is scheduled to take effect in 2026. Do you anticipate any challenges?
 N/A
- 9. Beyond the renewable energy specified by the sectoral sub-targets, any renewable or low-carbon energy may contribute to the overall carbon intensity reduction target. Do you find this cross-sector fungibility appropriate? If not, what type of fungibility would you propose? N/A
- 10. Residual gases from refining processes are currently reinjected as fuels within those same processes. The combustion of these gases emits CO₂. One possible option to decarbonize these residual gases would be to crack them in steam reformers to separate the combustible component (in the form of hydrogen) from the greenhouse gas component, which would be captured and stored. The hydrogen, provided the CO₂ capture is sufficient for it to be considered low-carbon, could be reused in the refining process in place of the residual gases. Should this hydrogen be included in the IRICC mechanism? Under what conditions? And on what timeline, given that its inclusion would require increasing the overall target?

There is no reason to exclude such a low-carbon hydrogen produced from reforming process combined with CO2 capture from the IRICC mechanism, as soon as it can play a – even minor – role to the overarching -14,5 % GHG reduction target set for the French transport sector by 2030.

11. How would you suggest adapting the mechanism and its targets for the overseas departments and regions (Guadeloupe, Martinique, French Guiana, Réunion, Mayotte), potentially distinguishing certain territories based on specific characteristics?

N/A

12. Additional Comments

We believe that **Proof of Sustainability (PoS), issued in compliance with RED requirements, should be sufficient for compliance with the scheme under consultation.** Moreover, it is paramount that certification for the purpose of this scheme (to be implemented through CarbuRE), does not create an additional burden on operators, which should be able to rely on existing RED-compliant certifications such as PoS, and that the registry is fully integrated in the UDB (Union Database) once it is fully operational.



Making the disclosure of Guarantees of Origin (GO) mandatory to claim compliance towards the targets defined under the Renewable Energy Directive is not necessary, nor appropriate. GOs are just disclosure documents, not compliance ones, as per RED II, Art. 19. Also, their tradability across the EU is currently limited and it will stay so until all Member States have established the relevant registries and linked them to the Union Database. We highlight that the issuance of GOs is not a necessity but rather a right of the producers. It is therefore important that volumes that do not carry GOs are <u>not</u> left out of the compliance markets.

Furthermore, according to Article L295-3 of the French Energy Code, point 4 of the *dispositions législatives*, certified biomethane will be eligible for compliance if it did not benefit neither from support under Articles L. 311-12, L. 314-1, L. 314-18, L. 314-31, L. 446-4, L. 446-5, L. 446-7, L. 446-14, L. 446-15 or L. 446-26, nor within the context of the CPB scheme (*certificats de production de biogaz*) mentioned in article L. 446-31, nor from any other equivalent support schemes in other Member States. We therefore ask DGEC to confirm that this refers to the single molecule of biomethane and that a production facility can split or allocate, for instance, part of its production to compliance with the IRICC, and part to compliance with other schemes (e.g., CPB). More clarity on the acceptability of subsidised volumes from third countries, as well as on how "equivalence" will be established, would also be beneficial.

Finally, in light of recent cases of fraudulent behaviour by certain market participants and of the absolute importance to ensure market integrity, we invite the Government to consider the strictest enforcement standards and look into any mechanism that would allow the relevant authorities to withdraw from the market any fraudulent certificates once these emerge. Specifically, France should continue the current practice where waste-based fuel producers need to submit documents to the local authorities for approval of the facility for double counting (if they continue with it) and assign the appropriate quota.

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