

Ensuring a Common Understanding of the Rules for the EU Chain of Custody & their Applicability to Third Countries

Today, the European biomethane market remains highly fragmented, with negligible cross-border trade and subsidy-driven growth at national level. Only a very small portion of biomethane is consumed outside its country of production, exposing the limits of the internal market. Limited liquidity prevents reliable price formation, which in turn prevents consumers from accessing the most efficiently produced biomethane and deters offtakers to enter into long-term agreements. Investments in new production are hindered, making the path to decarbonisation even more challenging.

Market distortions stemming from the lack of harmonised certification systems and diverging interpretations of the mass balancing principle across Member States are common and undermine competition and level playing field among economic operators.

We believe that the first step towards the integration of the European biomethane markets is to ensure a common understanding of how mass balancing operates, as well as to establish and accept universal rules for preserving the chain of custody. The forthcoming recast of Implementing Regulation (EU) 2022/996 on the rules to verify sustainability offers a timely opportunity to deliver this clarity and alignment across Member States.

Key Messages

- A **common understanding** and a **harmonised implementation of mass balancing** across the EU is urgently needed.
- **Physical gas trade must be a prerequisite for PoS transfer.** Separate tradability of sustainability declarations is not consistent with the principle of mass balancing laid down in the EU regulatory framework.
- A **robust Union Database integrating national registries** will ensure correct target accounting and prevent double claims.
- It is crucial to ensure that **mass balancing rules apply to third countries**, particularly where the gas infrastructure is physically connected to the EU single mass-balancing unit.

Trading physical gas volumes is a prerequisite for PoS transfer

Despite the concept being enshrined in European legislation, mass balancing remains a point of contention for certain Member States. When properly implemented, mass balancing is entirely sufficient to ensure the correct allocation of environmental attributes to gas molecules. However, we note that **the notion of “link” between physical commodity and PoS, embedded into the rules of voluntary schemes, is being interpreted inconsistently among Member States**, thereby undermining the level playing field in the market. With the revision of the Implementing Regulation – set to replace Implementing Regulation (EU) 2022/996 on the rules to verify sustainability – the European Commission has a chance to clarify the rules for certification bodies and voluntary schemes, strengthen enforcement, and enhance trading by establishing clear rules along the chain of custody. **Outlined below is our view of mass balancing as defined in the EU regulatory framework. This, we believe, should equally guide its practical application.**

- Implementing Regulation (EU) 2022/996 establishes that the interconnected gas infrastructure – which includes low and high-pressure pipelines, LNG terminals, and storage facilities – operates as a mass balancing system. **Physical volumes of biomethane entering and exiting the system via entry or exit points must be always accompanied by Proofs of Sustainability (PoS)** issued by the producers, which are certified according to voluntary schemes (VS). The physical flow, accompanied by sustainability documentation, is verified and measured by the TSO (or the DSO or LSO where applicable), which collects metered data at injection and withdrawal points, and whose measurements are considered fully reliable.
- Once biomethane (gas + PoS) has entered the single mass-balancing unit, it can be **contractually transferred from trader to trader**. While there is no need to track and prove the physical flow of gas within the single mass-balancing unit, it should be clear that **economic operators must always prove the link between PoS and physical volume**, as required under Art. 18.2 of Implementing Regulation (EU) 2022/996 – namely by showing the existence of a contract for supply of physical volumes of biomethane. This implies that it is allowed for economic operators to pair the PoS to any volume of their gas portfolio, provided that it is embedded within the same mass balancing system. The preconditions for economic operators to carry out these operations are:
 1. to be VS-certified, thus ensuring that the Chain of Custody is not interrupted;

2. to have a status of “network users” within the meaning of the Gas Directive (EU) 2024/1788, directly or via an agent in any of the entry-exit systems within the geographic boundaries of the interconnected gas infrastructure;
 3. to be able to demonstrate, at the end of each mass balancing period (3 months), physical possession of volumes, at any place within the single mass balancing unit¹.
- Before reaching final consumption, biomethane (gas + PoS) exits the single mass-balancing unit to reach the end-user, in either liquid or gaseous form. At this stage, we again observe a flow of sustainable molecules, as previously described, demonstrated and measured through reliable and certified metered data.
 - To prevent double claims, finally, it is also required that no deficit arises in the mass balance for gas and gaseous fuels injected into the transmission or distribution infrastructure at the end of each mass-balancing period. As a general rule, the total volume of injected and offtaken batches – each with their corresponding sustainability characteristics – must therefore be balanced².

We call on the European Commission to ensure that this interpretation of mass balancing becomes the standard adopted by all Member States and economic operators. Diverging interpretations that permit the free exchange of sustainability declarations within the single mass-balancing system – detached from the corresponding physical volumes (commonly referred to as “book and claim”) – are not consistent with the principle of mass balancing established in the EU regulatory framework.

Such “decoupling” is only applicable to certificates such as Guarantees of Origin (GOs), which are not compliance tools under RED and may only complement, not replace, Proofs of Sustainability, as defined in Articles 19 of RED II and 31a of RED III. In any case, and to avoid any double counting linked to GOs, we recommend that a correct integration of the GO registries with the Union Database is achieved, to ensure that the transfer of the guarantees of origin³

¹ In line with ISCC EU Document 203, at the end of the mass balance period the sum of batches with corresponding sets of sustainability characteristics added to and withdrawn from the mixture has to be balanced.

² Exemptions from this rule are allowed, e.g. by ISCC EU Guidance 203, where injections exceed offtakes. The resulting surplus of sustainable material recorded in the bookkeeping is referred to as a “credit” and can be transferred from one mass balance period to the next, as long as an equivalent quantity of the specific product (whether sustainable or not) remains physically in stock.

³ A proper integration of GO registries should cover an automatic recognition of GOs between MS or, when it is not possible, the withdrawal in the exporting GO system, to not to distort cross-border trading and the use of PoS certified biomethane.

follows the same operating scheme applicable to the associated biomethane certified with PoS – at least during the lifetime of the GOs. To this extent, **it should be clarified that the expiry of GOs does not limit the validity of the “PoS + gas” for compliance purposes.**

Finally, Member States should be required to ensure that their national GO systems do not constitute a barrier to cross border trade, e.g. by denying or hampering the mutual recognition of GOs issued by other Member States, requiring GOs for compliance purposes, or impeding export of GOs via domestic legislation.

The role of the Union Database

Against this backdrop, it is essential that – as rightly mentioned by the European Commission during the Third PMG GO Workshop held on 30 January 2025 – the **forthcoming recast Implementing Regulation (EU) 2022/996 defines harmonised rules to register all the transactions on the Union Database (UDB)**, for both injection to and offtakes from the single mass-balancing unit, as well as for transactions within the same mass-balancing unit.

Moreover, we would like to underline the importance of **ensuring consistency between the UDB design and the Implementing Regulation**, in particular **Articles 18-19, and Annex I**. For instance, if the biomethane injection point is visible on the UDB PoS, the rules shall require economic operators to keep this information on the PoS and pass it down the supply chain. In a similar manner, if the UDB allows traders to add downstream emissions (e.g. losses from gas liquefaction) to the PoS, this shall be articulated in the Regulation to prevent divergent interpretation at the level of voluntary schemes.

On the assumption that the rules for target accounting are clearly defined — specifically, that target accounting is based on consumption — **the use of the UDB will remove any uncertainty about whether (and where) a given quantity of gas is being consumed, thus making it clear in which country the associated emissions reductions should be counted.**

Finally, as mentioned before, we stress again the importance of a timely integration of GO registries into the UDB, following the same principles and logic applicable to certified biomethane, to avoid further market fragmentation.

Applicability of the rules for the Chain of Custody in third countries

As the implementation of the UDB progresses for Member States, the **integration of third countries should advance in parallel** with a view on ensuring a level playing field between European and non-European producers – clearly, **under the condition that the sustainability criteria as defined in RED are strictly observed**. This will offer European consumers further access to potentially relatively cheap renewable gasses, contributing to EU security of supply, supporting decarbonisation, and enhancing relations with neighbours.

Therefore, we stress the importance of **ensuring that the same rules for the preservation of the chain of custody within the EU territory, are extended to the neighbouring countries, especially where these are physically connected to the EU single mass-balancing unit**.

Today, we note that key challenges remain around the treatment of imports and exports from third countries. Mass-balanced supply chains certified by EU-recognised voluntary schemes enable trade within the EU. Provided that adequate monitoring and control mechanisms are in place, our interpretation is that **mass-balancing under the UDB should not be necessarily limited to the EU-grid⁴, but should include neighbouring gas infrastructure connected to the EU gas networks** (e.g. Ukraine, which connects with Poland, Slovakia, Hungary and Romania, or the UK, which connects with Belgium, the Netherlands, and Ireland). Diverging interpretations of this principle would imply that consignments from certain third countries would remain excluded from compliance markets.

While we appreciate the Commission's openness about allowing Ukrainian biomethane under the UDB (once fully operational), we believe that this treatment should be extended to other physically interconnected third countries in the nearest term, to prevent the EU from being deprived of significant volumes of biomethane that would foster gas decarbonisation.

Equally and based on the same conditions imposed on import of biomethane from physically connected third countries, **import of biomethane from non-physically connected third countries should also be allowed** on the understanding that these countries would be treated as separate

⁴ On the one hand, Article 31a(2) of RED III stipulates that "For the purpose of entering data into the Union database, the interconnected gas system shall be considered to be a single mass balance system"; on the other hand, Article 2(18) of Regulation (EU) 2022/996 defines interconnected infrastructure as a 'system of infrastructure, including pipelines, LNG terminals and storage facilities, for the transport of gases, including [...] in particular biomethane, [...] which technically and safely feeds into the natural gas pipeline system [...]'. There is no indication in this technical definition that the term 'interconnection infrastructure' is intended to refer to the EU Member States only.

POSITION PAPER



mass-balancing facilities. No legal impediment should remain in this regard as long as the chain of custody can be fully tracked.

We hence recommend that the European Commission:

- provides **clear guidance on the process to be followed for all imports from third countries to be recognised under the Union Database**, ensuring transparency and accessibility, both in case of interconnected and non-interconnected grids;
- swiftly enters into **cooperation agreements** with third country administrations to enable the inclusion of interconnected gas grids in the European single mass balancing facility, based on the interpretation of the definition of "single mass balance system" which, as expressed above⁵, does not limit such system to EU infrastructure only, but rather extend it to any interconnected infrastructure. These cooperation agreements should be conditional on the presence of international voluntary schemes recognised by the European Commission and operating in the third country in question. These schemes would serve a threefold function:
 1. Certifying production sites in accordance with their established rules and procedures, thereby ensuring that the biomethane complies with EU sustainability and greenhouse gas (GHG) reduction criteria; and
 2. Accrediting the certification bodies responsible for conducting the required audits.
 3. Identifying third-party volume verification solutions where gas system operators are involved in the value chains extending into a third country, provided that the biomethane batches in question are compliant with EU requirements.

We remain available for any further clarifications or additional information you may require. Please do not hesitate to contact us.

Contact

Stefano Grandi
Gas Policy Associate
s.grandi@efet.org

⁵ See note above.