NGO Recommendations on Optional Model Clauses and Compliance Criteria to Support the Implementation of the EU Methane Regulation

Main Findings

- The system used to trace environmental attributes along fossil fuel supply chains should be as direct as possible for any given supply chain and based on producer level data.
- Industry actors and policymakers must jointly develop tracing systems that follow the volumes of compliant gas as closely as possible for all supply chains, preserving the full intent and integrity of the EU Methane Regulation.
- Implementation should be harmonised across the Union to ensure that the most transparent and effective approach is implemented. A fragmented tracing landscape will create loopholes and incentivise a race to the bottom. Competent authorities need clear guidance on the criteria for proof of compliance-aligned application of the model clauses.
- More clarity is needed on the criteria for determining when a supply chain should be considered complex.
- Where direct tracing of attributes is not possible for the importer, due to the complexity of supply chains, comingling of volumes, or the number of mid-stream actors, a trace-and-claim approach should be used to track bundled attributes along supply chains.
- Certification schemes where environmental attributes are traded independently from the product are inherently flawed and rarely work as intended, with problems ranging from double-counting and cherry picking to large-scale fraud. Due to the heterogeneity of methane emissions intensity between and within production basins, a certification approach is unlikely to lead to emissions reductions.

Introduction

The undersigned NGOs welcome the European Commission's process of issuing recommendations on optional model clauses and compliance criteria related to the EU Methane Regulation (EUMR). These recommendations are timely as market operators, importers and competent authorities are seeking certainty about which solutions would be considered acceptable for demonstrating compliance with EUMR monitoring, reporting and verification (MRV) requirements in a stable and predictable manner. However, further detail and clarity are needed on how and when the different approaches should be used to provide clarity and ensure the effectiveness of the regulation.

NGO Recommendations

I. Direct Tracing (Default Compliance Pathway)

To protect the integrity of the EUMR and its import standard, the system used to trace environmental attributes should be as direct as possible for any given supply chain. Under the default compliance pathway, when the importer has a direct relationship with a producer or can identify the producer indirectly through contractual relationships with intermediaries, documents demonstrating compliance are bundled with the commodity and transmitted along the supply chain to the importer. Compliance can be demonstrated either through molecular tracing or, more likely, by following the contractual transactions along the supply chain. The default compliance pathway therefore satisfies the intention of the EUMR to bring about transparent MRV measures and a calculation of methane intensity at the level of the producer. This approach can be easily implemented in countries with unitary supply chains and little commingling of gas from diverse operators or fields, *e.g.* Qatar.

Against this backdrop, the draft recommendations do not provide clear criteria for when a supply chain should be considered complex, which would exempt importers from following the default compliance pathway. More clarity is needed on the criteria for determining if a relationship between a producer and importer is "difficult or impossible to establish" to support competent authorities in making consistent decisions. Moreover, "the practice of mixing together different supplies of gas or oil for transport or storage" applies to most supply chains. This wording risks the creation of a loophole where importers are

incentivised to unnecessarily increase the complexity of supply chains, for example by involving intermediaries, in order to avoid more stringent tracing requirements.

The fossil-fuel industry, particularly in the US, has long maintained that direct tracing of traded volumes along supply chains is possible in response to calls to clean up the industry ahead of deep decarbonisation. This is a key milestone that must be achieved if near-zero upstream methane emissions are to be achieved by 2030, another achievable target claimed by industry.[1] These companies, who enjoy huge profits and have enormous revenues at their disposal, are well used to dealing with technical issues. As highlighted in the recent letter from US democrats in support of the EUMR, "*US leaders in industry and academia have also developed methodologies to track fossil fuels and related emissions across complex supply chains to meet customer demand for verified lower emissions fuels.*"

Industry actors and policymakers should jointly develop tracing systems that follow the actual volumes of compliant gas as closely as possible for all supply chains, preserving the full intent and integrity of the EUMR - which is to ensure that producers follow equivalent MRV standards to those in the EU. The development of such a system is possible and a key prerequisite to including full supply-chain emissions for imports in the EUMR.

Ultimately, the obligation to prove compliance of imports to the rules of the EUMR is on the importer. Therefore, it is the responsibility of the importer to ensure that they can identify the sources of the products they place on the EU market by engaging upstream intermediaries and rearranging contractual relationships within existing supply chains.

II. Support for Trace and Claim

Where direct tracing of attributes is not possible for the importer, due to the complexity of supply chains, comingling of volumes, or number of mid-stream actors, a trace-and-claim approach could be used to track bundled attributes along contractual supply chains. Similar to the default compliance pathway, environmental attributes are transferred only with a physically deliverable volume within a defined supply chain.

Under a trace-and-claim system, documents of compliance would be collected by voluntary scheme providers (*e.g.* Context Labs, Fiutur, Attributes) and uploaded to publicly available digital registries. Environmental attributes are then passed along the contractual supply chain. Importers would have to demonstrate a plausible chain of custody for the gas they import, based on transactions recorded in the digital registries. This approach ensures that the financial incentive created by EU demand for low-methane gas reaches suppliers that are seeking to comply with the requirements. For these proofs of compliance to be credible, the European Commission will need to add precision to the recommendations to make sure that "providers" do not have conflicts of interests, auditing rules and frequencies of the providers are clear, verification of measurement and reporting takes place as intended by the regulation, and Member States' competent authorities have access to measurement methodologies, results and reports and are able to make them publicly available in the Methane Transparency Database.

While this approach might require importers to adjust contract structures within existing supply chains, producer-level trace-and-claim is technically feasible, alongside direct tracing, represents the only other option that is both compliant with the EUMR requirements and delivers on its goals. Industry's reluctance to positively engage with tracing requirements should not be confused with technical limitations and should not be rewarded with a compromised approach that will deliver little to no emissions reductions. Now is the time for producers, mid-stream actors and importers to work together in a constructive manner to implement a workable solution with minimal market disruption.

[1] 50 companies representing more than 40% of global oil and gas production, announced under the Oil and Gas Decarbonization Charter at the COP28 climate talks, that they are committed to achieving 0.2% methane emissions intensity by 2030. Available here.

III. Concerns with "Certification" Schemes

While trace-and-claim can be an adequate approach for importers to credibly and transparently prove compliance, when the right guardrails are set, that does not seem to be the case for the "certification" approach, the second voluntary compliance scheme introduced by the Commission's recommendations.

MiQ, one of the largest companies providing certification as a service, claims that roughly 25 billion cubic feet per day (Bcf/d) of U.S. certified gas is already available, with nearly half of this volume from Appalachia.[1] This is more than triple current EU-bound LNG exports (6-8 Bcf/d). Given the wide variation in methane intensity of oil and gas production in the US market, such a system would encourage the export of existing low-methane certified gas to the EU, with little incentive to further monitor or mitigate methane emissions from more polluting assets. The larger the area within which certificates are allowed to be traded the larger the risk that certificates come from an already existing source of low-intensity production. A study from the Energy Emissions Modeling and Data Lab (EEMDL) found that a national level book-and-claim approach in the US would have no effect on methane emissions.[2] In addition, several independent reports have raised serious doubts about the integrity of green gas certificates as they are currently issued in the US, including those issued by MiQ, finding that in the vast majority of cases, conditions at oil and gas production sites do not reflect the claims made by certifiers.[3]

An alternative would be to constrain the origin of the certificates to match the basin of origin of the imported commodity, under a basin-level certification system. However, significant variation in methane intensity also exists within basins resulting in similar cherry picking of assets and reduced incentives.[4] Due to the heterogeneity of emissions intensity between and within basins, a certification approach is unlikely to lead to emissions reductions. The relevant geographical unit is the production site.

Moreover, past experiences have shown that trading products and environmental attributes separately rarely delivers the desired outcome:

- A European Court of Auditors' report found the EU certification system for the sustainability of biofuels to be unreliable.[5]
- Cheniere Energy's Cargo Emissions Tags Undercount the Real Impact of US Gas Exports.[6]
- Voluntary audit and certification initiatives have inherent limitations and frequently lack the detailed criteria and rigorous methodology needed to evaluate companies' compliance with human rights or environmental standards.[7]

Certification schemes as laid out in the draft by the Commission are inherently flawed and rarely work as intended. The problems range from double-counting and cherry picking to large-scale fraud as has been proven in the context of the implementation of the Renewable Energy Directive.[8] Based on previous examples, it should be assumed that this approach is unlikely to be successful in a complex global oil and gas market.

Conclusion

If regulations allow, market actors will always select upstream producers with existing lower intensity production for exports to the EU when possible. Certification based on unbundled attributes allows for the greenwashing of fuels and cherry picking of best performing assets for compliance with the EU import requirements. With this in mind, we support the trace-and-claim approach proposed in the European Commission's recommendations, and advise against the use of certification, except where absolutely necessary, on a short-term basis, and with appropriate guardrails.

The EUMR was adopted in 2024. Rather than delivering on longstanding commitments to develop the necessary tracing systems, industry actors have lobbied for weakening and delays to the provisions. We call on the European Commission to ensure the system used to trace environmental attributes is based on producer level data, harmonised across EU Member States, and is as direct as possible for any given supply chain.

Finally, we highlight that in particular the high dependency on US LNG becomes highly problematic for Europe from a geopolitical, energy security, and price competitiveness point of view – thereby increasing the need for a rapid clean energy transition based on renewables and a fossil gas phase-out in addition to the implementation of a robust and stringent EUMR.

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