



**Open letter to Members of the European Parliament: time to vote for an EU Emissions Trading System (ETS) and a Carbon Border Adjustment Mechanism (CBAM) that work for the climate and support industrial transformation**

Dear Members of European Parliament,

A strong reform of the EU Emissions Trading System (ETS) and a well-designed Carbon Border Adjustment Mechanism (CBAM) can truly help slash emissions from the goods we produce and import, create a level-playing field for Europe's low-carbon manufacturers and stimulate the demand and supply of clean industrial products.

Ahead of your vote on the [ETS revision](#) and [CBAM proposal](#) on 7 June 2022, we urge you to support the following:

### 1. Higher climate ambition

The overall EU climate framework is in [urgent need of a substantial revision](#) in order to contribute effectively to the EU's achievement of the Paris Agreement objectives. A sharper increase in ambition is not only necessary to limit temperature increase to 1.5°C, but it will also send a strong market signal and provide necessary regulatory certainty to the market to stimulate and reinforce private investment.

**The text agreed by the European Parliament's Environment Committee leading to a 68% reduction in ETS emissions would be an important step towards avoiding the worst**

consequences of climate change and is the most consistent with the European Parliament's position on the 60% overall EU climate target. We therefore urge you to support this in plenary.

## **2. CBAM as alternative to current carbon leakage protection measures**

The continuous handout of free allowances not only undermines the polluters pay principle enshrined in the EU treaties, but has also completely failed to bring down emissions in energy-intensive industries. In fact, the ETS has acted as a subsidy for incumbents, generating [€50 billion of windfall profits](#) to high-emitting sectors such as steel, cement and chemicals while providing no incentives to invest in cleaner production.

Moreover, by rewarding large emitters, the system has undermined those industries that have invested in carbon neutral technologies.

The revision of the ETS and the introduction of a CBAM represent a crucial opportunity to reform this system and turn it into an effective climate policy tool. Ending free allowances to CBAM sectors later than 2030 would instead only undermine the effectiveness of the CBAM and the ETS as instruments to reduce emissions in the EU and globally.

**We therefore urge you to support a phase-out of free allowances by 2030 at the latest and to implement a CBAM only as an alternative to current carbon leakage protection measures.**

## **3. Better and timebound targeting of free allowances**

While free allowances are still allocated to ETS industrial sectors, they should be better targeted and assigned to installations that are investing in clean production processes and have a clear plan to contribute to the EU short and long-term climate targets.

The compromise voted in the ENVI Committee is a mild step in the right direction and should not be watered down. In fact, it already provides a lot of carrots for incumbent industry: free ETS allowances until 2030, indirect costs compensation and a huge Climate Investment Fund to support existing and innovative clean projects. It's only fair to make the allocation of free ETS allowances conditional upon energy efficiency requirements and climate neutrality plans.

Moreover, despite the latest public complaints, under this scenario, the steel sector would still receive over 1 billion free allowances in the next 7 years, while the cement sector almost 700 million. At today's carbon price (85 EUR/t), these represent subsidies worth 85 billion EUR for the steel sector and 57 billion EUR for cement. These are foregone revenues which could otherwise be used to accelerate decarbonisation in the EU.

It is clear that a stronger revision of how allowances are allocated and additional conditionality are urgently needed.

**To this end, we urge you to support a strong revision of the current benchmarks as well as stricter conditionality for companies that wish to keep receiving free allowances.**

Thank you for your time and consideration.

We remain at your disposal for further information or questions.

**Signatory organisations:**

1.5°Ventures

Bellona Europa

Bond Beter Leefmilieu

Carbon Market Watch (CMW)

Climate Action Network Europe (CAN-E)

Climate & Strategy Partners

Clean Air Task Force (CAFT)

Clean Tech for Europe

E3G

Ecocem

Environmental Coalition on Standards (ECOS)

H2 Green Steel

Jacques Delors Energy Centre (JDEC)

Legambiente

Réseau Action Climat France (RAC France)

The Alliance of Associations Polish Green Network

The Green Tank

WISE Netherlands

WWF EPO

Zero Waste Europe

ZERO