



Open letter: Time to agree on an EU Emissions Trading System (ETS) and a Carbon Border Adjustment Mechanism (CBAM) that work for the climate and support industrial transformation

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.

As you continue the negotiations to finalise the reform of the EU ETS and the implementation of CBAM, we reach out as a broad coalition of civil society organisations and clean industry frontrunners active in the EU. We urge you to ensure that the following elements are included in the final legislation:

1. Free ETS allowances are phased-out as soon as possible

The continuous handout of free ETS allowances not only undermines the 'polluter pays' principle enshrined in the EU treaties, but has also 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 almost no incentives to invest in cleaner production.

Moreover, by rewarding large emitters, the system has undermined those industries that have already invested in transitioning to carbon neutral technologies, and acted as a market barrier for such frontrunners.

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, supporting industrial transformation by applying the 'polluter pays' principle and reinvesting the revenues in clean breakthrough technologies and processes. To this end, the timely phase out of free allowances would also contribute to increasing the resources of the ETS Innovation Fund to incentivise industrial transformation.

We therefore urge you to support the introduction of a fully operational CBAM as of 2026, and a progressive reduction of free ETS allowances to CBAM sectors. Free ETS allowances should be reduced 10% annually between 2026 and 2030, and fully discontinued by 2032 at the latest.

2. Better and timebound targeting of free ETS allowances

While free ETS 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 decarbonisation plan to contribute to the EU short and long-term climate targets.

The current energy crunch and challenging circumstances do not warrant delayed action and special exemptions. Both ETS and CBAM proposals, currently negotiated, are already very generous to incumbent industries. At today's carbon price, the steel sector stands to receive €80 billion in free allowances in the next seven years and the cement sector more than €55 billion. These are foregone revenues that could otherwise be used to accelerate decarbonisation in the EU.

Furthermore, EU industries continue to receive compensation for their indirect ETS costs and stand to benefit from a larger Innovation Fund as well as other sources of public funding delivered through the Recovery and Resilience package.

In this context, strengthening the current benchmark system and attaching conditionality requirements to the allocation of free ETS allowances is only logical. Current benchmark definitions for steel and cement create huge disincentives to invest in decarbonisation, both for incumbents and frontrunners in these sectors. Better targeting of free allowances would provide more effective, fair and focussed support to industries that truly invest in cleaner production. This will also avoid lock-ins in fossil fuels or unsustainable infrastructure, provide incentives for investments in climate neutral compatible projects, and increase ETS revenues for EU Member States. Between 2013 and 2021, €98.5 billion¹ was handed out for free to EU industries, while their emissions have barely decreased.

¹ Findings from upcoming WWF EPO publication on EU ETS revenues (to be released soon). See the 2021 version: "[Making EU ETS revenues work for people and climate](#)".

This ETS reform and CBAM implementation are the chance to reverse this trend and put EU industries on an ambitious decarbonisation path.

We therefore urge you to support the following:

- **make the allocation of free ETS allowances conditional on energy efficiency requirements and decarbonisation plans**
- **a revision of the current ETS benchmarks that takes into account material substitution and circularity, and reflects the real technological developments and potential of sectors, making sure that installations investing in partially or fully decarbonised processes are included in the same benchmarks as the conventional installations. This means revising the definition and scope of the benchmarks and increasing the minimum improvement rate to at least 0.4%**

Thank you for your time and consideration.

We remain at your disposal for further information or questions.

Signatory organisations:

Bond Beter Leefmilieu

CEE Bankwatch

Cem'In EU

Cemminerals

Carbon Market Watch (CMW)

Climate Action Network Europe (CAN-E)

Climate & Strategy Partners

Environmental Coalition on Standards (ECOS)

EPICO Klimainnovation

European Environmental Bureau

German Watch

H2 Green Steel

Naturskyddsföreningen - Swedish Society for

Nature Conservation

O'Brien Cement

The Green Tank

Third Generation Environmentalism (E3G)

Vracs de l'Estuaire

WISE Netherlands

WWF EPO

ZERO

Zero Waste Europe