



To: Environment Ministers of EU Member States

Brussels, 16 December 2021

**Re: Revision of Directive (EU) 2003/87/EC - EU Emission Trading System (ETS)
Full auctioning of emission allowances to industry**

Dear Minister,

The revision of the EU Emissions Trading System (ETS) as part of the 'Fit For 55' package is a crucial piece of Europe's decarbonisation strategy. This represents a huge opportunity to strengthen the Directive to ensure it is in line with the 1.5°C target under the Paris Agreement. However, the European Commission's proposal does too little to put energy-intensive industries firmly on a path towards achieving climate neutrality.

Most worryingly, the proposed revision misses the crucial opportunity to apply the 'polluter pays principle' by continuing to hand out free pollution permits to resource- and energy-intensive industries.

For this reason, the undersigned organisations urge you to endorse the application of the 'polluter-pays principle' as enshrined in the EU Treaty (TFEU Art. 191) and the swift phase out of free allocation of emission allowances in the revised EU ETS Directive.

Since 2008, over 200 billion euros worth of free emission allowances have been handed out to energy-intensive industries while their greenhouse gas emissions have stagnated (less than 0.4% annual reduction since 2013). Despite auctioning being the default rule in the EU ETS Directive, more than 95% of industrial emissions are currently covered by free emission allowances. In contrast, emissions from the power sector – where free allocation is very limited – have dropped by 29% since 2013¹.

Evidence collected by the European Court of Auditors [report](#) (2020) confirms that free allocation of allowances tends to slow down industrial decarbonisation. Over half of all EU ETS permits to pollute have been given out for free since the ETS was created, with little emission reductions to show for in return.²

¹ Ember: <https://ember-climate.org/project/ets-2019-release/>

² European Court of Auditors, special report: [The EU's Emissions Trading System: free allocation of allowances needed better targeting](#), (September 2020).



Polluting for free in times of a climate crisis is unacceptable and Member States should immediately start auctioning all emission allowances to industries covered by the EU ETS.

Free pollution permits represent a market failure within the EU ETS since the external costs of carbon pollution are not internalised. Companies have no incentive to switch to cleaner production processes, while citizens carry the cost of climate impacts. At the same time, by handing out free pollution permits, EU governments forgo auctioning revenues which could be spent on further climate action, including support the development and implementation of clean technologies and business models. Between 2021 and 2030, the Commission proposal includes 5 billion emission allowances that are foreseen to be handed out for free. At current CO₂ prices of 80€/ton, this could represent a costly pollution subsidy of over around 400 billion euros.

The Commission's proposal perpetuates vast exemptions to large polluting industries.

The current review of the EU ETS is thus an opportunity to correct this system that cannot be missed.

The EU imperatively needs to move away from the status quo and create a regulatory framework that ensures that industry contributes to reducing greenhouse gas emissions. Abolishing free allocation will foster innovation and improve the business case for low-carbon alternatives, enabling the EU economy to capture the economic value of decarbonised products and processes, and the green markets of the future.

We therefore urge you to support a fast phase-out of free allocation in the Environment Council meeting on 20 December 2021.

Sincerely,

On behalf of the signatory organisations

Sabine Frank
Executive Director
Carbon Market Watch