

5 October 2026

Joint open letter to EU Environment Ministers on the revision of the EU Emissions Trading System (ETS1)

Dear Environment Ministers,

Europe's industrial challenge is real. But the answer cannot be to weaken one of the EU's most important tools for cutting emissions and driving the clean transition. Ahead of the Environment Council on October 12th, we, the undersigned, representing more than 200 organisations, urge you to keep sight of [what is at stake](#) as you consider the revision of the EU Emissions Trading System (ETS): maintaining a strong and predictable carbon price while ensuring European industry can thrive in a rapidly changing global economy.

The real risk Europe faces today is not carbon leakage, but decarbonisation leakage. Weakening the EU carbon price and other climate policies **risks shifting investment in clean industrial production towards regions moving faster¹ on the transition**, leaving Europe behind in the technologies and industries that will underpin its future resilience and prosperity.

A strong and predictable carbon price is essential to building the business case in Europe for clean steel, green chemicals, circular materials and electrified industrial production. The EU ETS is the only instrument capable of delivering this economy-wide, predictable carbon price signal at the scale and pace needed to drive this transformation. Without it, investment in these sectors will become harder to secure and revenues will tumble, while the effectiveness and funding of future industrial policy instruments designed to support their scale-up, including the Industrial Accelerator Act, will also be undermined.

Calls to fundamentally dilute the EU ETS come from yesterday's fossil-based incumbents, while [investors](#) and industries positioning for the future are calling for a [clear and predictable direction of travel](#). Diluting the ETS would risk freezing investment decisions, penalising first movers and locking Europe into its existing industrial model just as a crucial investment cycle for Europe's basic industries is getting underway.

The urgency is clear. Recent extreme heat has once again highlighted the growing [human](#) and economic costs of climate disruption, with extreme summer weather alone [estimated](#) to reduce EU GDP by around 1% in 2026.

¹ Project data shows China is widening its lead in clean industry development, closing 13 FIDs in the last six months, compared with three in Europe and one in the US. [MPP-Global-Project-Tracker-report-June-2026.pdf](#)

Therefore, what Europe needs is to accelerate investment, not retreat from it. At a time of fiscal constraints, ETS revenues are all the more important to help close Europe's investment gap and accelerate industrial decarbonisation. Weakening the carbon price while failing to mobilise these revenues would leave Europe with neither the incentives nor the financial resources needed for the transition.

This is why it is urgent to:

1. Keep the ETS on an ambitious and predictable trajectory in line with the 2040 target

The linear factor should remain at **4.4% from 2031 to 2035 and lowered to 2.7% from 2036**. Analysis by the [Öko-Institut](#) confirms that maintaining a 4.4% LRF until 2035 aligns the ETS cap with the EU's 2040 climate target. Weakening the ETS trajectory risks delaying industrial decarbonisation, undermining the carbon-price signal needed to drive investment.

Moreover, evidence from the [Dutch Central Planbureau](#), commissioned by the Dutch Ministry of Finance, estimates that the Commission's proposed ETS adjustments could result in 2.9 Gt of additional emissions by 2050, a 33% increase, while delivering only limited reductions in allowance prices. Maintaining ambitious and predictable emissions reductions, particularly in the early 2030s, is essential to keep the Union on track towards its 2040 climate target rather than relying on steeper and more uncertain reductions at a later stage.

On the other hand, if the ETS allows extra emissions not aligned with the EU's 2040 climate target, these will need to be reduced elsewhere to ensure that our objectives are met - and the sectors that would need to compensate are already struggling to deliver emissions reductions (such as LULUCF, transport or agriculture). According to calculations from [Climact](#), **emissions reductions in the ESR sectors would need to go at least 7 to 8 times faster than currently** as a consequence of the ETS Commission proposal to achieve the EU 2040 climate target.

2. Unlock urgent productive investment in decarbonised industrial assets in Europe

Free allocations must be rapidly phased out, according to the original timeline of 2034 for sectors covered by the CBAM and soon thereafter for remaining installations. Until then, free allocations must come with credible obligations to invest in decarbonisation in Europe. After two decades of free allocations, progress has been too slow: the effective carbon price faced by industry was just €1.65/tCO₂ in 2021–2024, while around €30 billion per year in potential auction revenues is forgone. In sectors such as steel, major companies have invested only a small fraction of the value of the free allocations they received in decarbonisation, despite commercially available transition technologies.

The Commission estimates that its proposed conditionality mechanism, without the current exemptions, could unlock €140bn worth of investments between 2031-2040. Conditionality is therefore a crucial step in the right direction to ensure that industry concretely commits to future decarbonised production in Europe. However, it must translate into real investment and changes on the ground. Under the current Commission's proposal, 80% of free allocations would still be granted on the basis of investment plans, with only 20% conditional on tangible implementation steps. We therefore call for:

- Strengthening conditionality by reversing this balance: 80% of free allocations should be conditional on tangible implementation, with 20% available at the planning stage.
- Limiting exemptions to the planning requirement, especially for installations among the 10% best performers under a benchmark.
- Allowing for greater flexibility on timing to account for technology availability, project development pace and investment cycles, while maintaining the principle that receiving the full amount of free allocations remains conditional on planned and implemented investments that match the value of free allocations.

3. Reject integration of international credits and permanent carbon dioxide removals (CDR)

The introduction of international credits and large-scale carbon dioxide removals risk weakening incentives to cut emissions at source while shifting costs onto public budgets. The ETS should not become a mechanism for delaying the industrial emissions reductions that can and must take place within Europe. As such, international credits and CDR should not be integrated in the ETS.

Purchasing 260 Mt of international credits would hamper the EU's competitiveness by ultimately having the perverse effect of financing the EU's industrial competitors abroad instead of pursuing domestic decarbonisation. Credits should not enter the ETS, even indirectly.

For permanent CDR, their planned integration will delay emissions reductions today, raising costs for society in the future. The additional 250 million EUAs auctioned on top the cap will correspond to 250 million tons of additional CO₂ emissions in the atmosphere, but not necessarily to an equivalent amount of removals, as their delivery remains uncertain. There is also no need for integration as there is [no scarcity of allowances](#) in the current system.

Crucially, BioCSS (and biochar) installations do not generally remove CO₂ from the atmosphere unless a full life-cycle assessment is strictly enforced, but only transfer a proportion of the original biogenic carbon stored in biomass to a more durable storage form, while the rest is re-emitted to the atmosphere. All the while increasing pressure on the already struggling LULUCF sector. The CRCF permanent removals methodologies are low quality and integrity and are not aligned with the best available science, hence they [cannot guarantee removals](#).

The Commission should develop a dedicated permanent removals strategy including a dedicated target for real permanent removals that do not damage the land sink and separate financing framework for CDR, instead of this problematic integration as a risky offsetting mechanism in the ETS.

4. Turn ETS revenues into a much stronger European investment engine for a clean and just transition

The EU ETS has generated over [€270 billion](#) in auction revenues since 2013, making it a major potential source of financing for the climate transition. These revenues should be firmly earmarked for climate action and come on top of existing national climate expenditure.

They should accelerate the transition rather than subsidise continued fossil fuel use or compensate for the costs of maintaining the status quo. We therefore call for:

- Prioritising ETS revenues for climate action. Any support to ETS sectors should be capped at 50% of ETS revenues, including indirect cost compensation, and requiring compliance with the Do No Significant Harm (DNSH) principle.
- Using the remaining revenues for broader climate action, with mandatory spending lines for international climate finance and social and just-transition measures, including reskilling and upskilling workers and support for affected communities.

Turning ETS revenues into tangible benefits for people will be crucial to building public support for the transition: [72% of Europeans](#) believe the biggest emitters, or those failing to cut emissions, should pay more. This would ensure that carbon pricing delivers both the investment needed to decarbonise industry and concrete benefits for citizens and workers.

This is why the decisions you take now will shape Europe's industrial base for decades to come. As Europe enters a critical investment cycle for its basic industries, it has an opportunity to channel investment to drive the clean reindustrialisation of its economy while ensuring that workers and communities share in the benefits. Delaying the transition by weakening the EU ETS would only increase the environmental, economic and social costs Europe will ultimately have to bear.

Yours sincerely,

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