

Brussels, 5 December 2023

Joint letter on the revision of the Free Allocation Regulation (FAR)

Dear Members of the European Parliament,  
Dear Deputy Permanent Representatives and Climate Attachés,

Despite your efforts to make the EU Emissions Trading System (ETS) an effective tool to decarbonise the steel industry, the Free Allocation Regulation (FAR), which is currently being reviewed by the European Commission (EC), risks watering down this ambition.

In December 2022, both the European Parliament and the Council of the European Union [agreed to amend](#) the ETS Directive to clearly state that the free allocation of emission allowances **should be “independent of the feedstock or the type of production process”** – an amendment found in the [final text](#) published in May 2023. Yet the current EC’s draft proposal regarding the FAR revision for the period 2026-2030 **does not take on board the position of the co-legislators**. It **continues to differentiate among production processes** and, crucially, **overlooks the role of ferrous scrap in delivering carbon-neutral steel production**.

While the ETS aims to impose a cost on carbon emissions, the FAR has incentivised steel producers to favour production methods that include high contents of transformed ore in their final products. The FAR has been giving free allowances to carbon-intensive feedstocks used in iron ore processing, making it economically disadvantageous to include more ferrous scrap in the steelmaking processes. To align the FAR review with **EU climate and circularity goals** and to maintain **consistency with the ETS Directive text**, the EC must adopt a methodology for free allocation that is **independent of feedstocks** and that shifts **from a process-based to a product-based approach** (treating the emissions of all steel producers equally). This would help establish a **level playing field** and promote **fair competition across the different steel manufacturing routes**, while also encouraging the substitution of transformed ore with ferrous scrap in existing steel plants.

We can no longer afford to keep the principles of circular economy out of the equation and to continue doing business-as-usual. Not when **steelmaking represents the most polluting industrial sector in the EU** and the ETS has systematically failed to align it with the 1.5°C limit of the Paris Agreement. Although a phase-out of the free allocation regime is scheduled by 2034, the ETS needs to start triggering the necessary investments as soon as possible. **Delaying the transition to net-zero steelmaking in anticipation of a fully effective carbon pricing mechanism will prove too late**.

Putting circularity practices at the same level as iron ore transformation is crucial for the sector to strive towards net-zero. Not only will it **reduce emissions much faster**, but it will also **improve energy and resource efficiency** compared to steelmaking processes that rely predominantly on mined iron ore. Despite the significant potential for circular steel production within the EU, it remains largely untapped, as demonstrated by the annual export of nearly 20 million tonnes of ferrous scrap outside the EU.

We ask you to stand by the political agreement reached during the ETS trilogues, which the EC is now ignoring in its FAR revision. **We urge you to remind the EC of the outcome of the ETS trilogues and of its duty to propose a FAR that provides an equal number of free allowances for steel products, regardless of the feedstock or the type of production process**. A good revision of this delegated regulation is key for the ETS to retain its effectiveness and drive the EU steel industry’s ability to innovate and align with the EU’s target of carbon neutrality by 2050 at the latest.

**Signatories** (by alphabetical order):

Climate Action Network (CAN) Europe

Carbon Market Watch (CMW)

Central and Eastern Europe (CEE) Bankwatch Network

Citizens' Climate Europe (CCEU)

Clean Air Action Group (CAAG)

Environmental Coalition on Standards (ECOS)

European Environmental Bureau (EEB)

European Recycling Industries' Confederation (EuRIC) \*

NGO Shipbreaking Platform

Sandbag Climate Campaign

World Information Service on Energy (WISE) Netherlands

World Wide Fund For Nature, European Policy Office (WWF EPO)



\* including the explicit endorsement and support of Bundesvereinigung Deutscher Stahlrecycling- und Entsorgungsunternehmen e.V. (BDSV), member of EuRIC.

