



Joint letter on first call for projects under the ETS Innovation Fund

Dear Mr. Runge-Metzger,
Mr. Holzleitner,
Mr. Doubrava,
Ms. Velkova,

Financial support and investments for industry to innovate and deploy clean breakthrough technologies is crucial for the EU to achieve the objective of climate neutrality before 2050 and succeed in the fight against climate change.

The ETS Innovation Fund represents a step in the right direction and an improvement compared to its predecessor - the NER300. With roughly 1 billion euros a year over the next decade, the Innovation Fund has now expanded its scope beyond renewable technologies and CCS to include funding for innovative low-carbon technologies and processes in energy-intensive industries.

The first call for projects to be funded under the Innovation Fund is expected in the coming days. It will be paramount that funding goes to truly transformational projects that will drive the decarbonisation of European industry.

To this end, we, the undersigned NGOs, would like to present the following recommendations:

1. Recycling more auctioning revenues and increasing the scale of the Fund

We believe that the Innovation Fund plays a crucial role in helping industry decarbonise. However, 1 billion euros a year is a start but it's not enough. When looking at the amount of funding required to make this happen, it is clear that the current public and private funding is insufficient to effectively drive the clean energy transition in the industrial sectors. The overall financial capabilities of the Innovation Fund should be increased, if this fund is to become the EU economy-wide decarbonisation tool.

This would act as a major opportunity and support for industry in their efforts to decarbonise and is much more effective than the arbitrary and disproportionate allocation of free emission allowances under the EU Emissions Trading System. As a reminder, it is expected that more

than 6.3 billion allowances will be allocated for free to industries over the period 2021-2030 – worth as much as EUR 160 billion.

Instead of this non-targeted handout, more auctioning revenues should be recycled towards industrial innovation. Free allocation to industrial installations should be rapidly phased out.

2. Preventing potential repercussions of the accounting methodology for electricity

Due to the current renewable energy (RES) targets and efforts in greening the power system, it is important to mandate the use of additional renewable electricity for large, industrial projects which could potentially use and maintain base load demand for local, potentially non-renewable electricity sources. Innovation in areas such as electrolysis should certainly be incentivised and encouraged, but such incentives should not change the basic accounting of their climate impact.

Retaining the principle of additionality or in other cases, calculating realistic emissions from the grid, will ensure that the usage of RES in other sectors is not hindered and the power sector transformation does not come to a halt. Relying on future projections, particularly for projects within the 10-year timeframe is problematic because it underrepresents emissions in reality. **Predictions of the emission factor of the grid in 2030 and 2050 should not be used to calculate the climate impact of electrolytic hydrogen or any other industrial project using electricity today.**

Given the decision to disregard any electricity emissions for industrial projects applying for the Innovation fund, **it should be made clear that this an exception which should not be taken up in other legislative acts, such as the Renewable Energy Directive and its delegated acts.** During the selection process, projects which are amped up in parallel to the deployment of additional renewable electricity in the same region (according to specific thresholds in gCO₂eq/kWh) should be strongly prioritised.

3. Choosing projects strategically to decarbonise large industrial clusters

The first call for projects under the Innovation Fund is scheduled to be launched in the coming days. This is crucial as it will set the tone for future calls and projects.

Firstly, **projects supported by the Innovation Fund should provide a basis for the decarbonisation of industrial clusters in Europe.** By supporting projects that are located within those clusters, are scalable and achieve significant emission reductions, the Innovation fund can kickstart infrastructure developments needed to decarbonise European industry.

Moreover, **the EU should prioritise technologies that focus on production process transformation rather than end-of-pipe measures such as CCS.** CCS funding should be dedicated exclusively to the decarbonisation of non-abatable process emissions for industrial sectors such as chemicals and cement. Such projects should be rigorously monitored to ensure

that any form of deployed CCS adheres to strict environmental and social safeguards in order to minimise negative consequences. Moreover, support to CCS as a solution to “greening” fuels in the energy supply chain, for instance natural gas, should be excluded.

With regards to hydrogen, the **Innovation Fund should exclude support for renewable hydrogen projects in industry infrastructure where direct renewable electrification is possible.** Moreover, it should assess the (future) available volumes of renewable hydrogen and sustainable biomethane and their infrastructure needs before granting funds to projects planning and building hydrogen-dedicated infrastructure, to exclude supporting fossil gas and fossil-based hydrogen.

The Innovation Fund should also support innovative technologies focusing on material efficiency and recovery of materials. The focus of circular economy innovations should be on retrieving materials such as cement and steel to give them new, long-term use, rather than producing fuels and chemicals. This ensures that the losses and remaining carbon emissions in a more circular system are minimised. Furthermore, tracking those carbon flows through and out of the industrial system into the atmosphere is crucial for the assessment of the climate impact of circular economy innovations.

In light of the European Green Deal and the firm commitment to achieve climate neutrality by 2050, as well as the need to support European industry in the post-Covid recovery, **we urge the European Commission to carefully select the first large-scale projects to be funded by the ETS Innovation Fund. These should be compatible with the objectives of the Paris Agreement and represent the best in class,** as they will serve as examples for the following calls and provide a clear signal to companies and investors on what direction the EU is committed to follow.

Carbon Market Watch

Bellona

EEB - European Environmental Bureau

ECOS - European Environmental Citizen's Organisation for Standardisation

BBLV - Bond Beter Leefmilieu

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