



Open letter: Protecting the Innovation Fund to ensure real climate action and support industrial transformation

A strong reform of the EU Emissions Trading System (ETS) is needed in order to rapidly reduce emissions from the goods and services Europe produces. Supporting clean technologies and innovation through the Innovation Fund is crucial to ensure the necessary tools to decarbonise, such as hydrogen, next generation renewables, carbon capture and storage, and carbon removal, are available. **We, the undersigned, are concerned with the provisional agreement on RePower EU which would enable Member States to use grants financed by the Innovation Fund (60%) and front-loading ETS allowances (40%). This will weaken and reduce the size of the Innovation Fund in order to raise revenues for RePowerEU at a time when an overall increase in funding would on the contrary be more needed than ever.**

We support RePowerEU as an important piece of legislation for achieving the EU climate and energy security goals. However, funding for it should not come at the expense of crucial other initiatives. As a result of the provisional agreement on RePower EU, weakening the strength of the **Innovation Fund could place critical climate innovation at risk.**

This position stands in harsh contradiction with what is needed to rapidly transform Europe's industrial sector. The first call of the Innovation Fund in 2021 was [more than 20 times oversubscribed](#). Following calls from an [earlier letter](#), increasing, not decreasing, the size of funds

provided by the Innovation Fund must be the response to the demand for supporting cleantech innovation in the EU. It is vital for the EU's green transition that the Fund is protected in the short term and the critical window for innovation is not missed.

With the Council position, Member States are adopting a vision rooted in short-term thinking which endangers both Europe's decarbonisation and industrial transformation. The International Energy Agency (IEA) [estimates that nearly 50% of the reductions in emissions required to meet our 2050 climate goals will come from technologies that are yet to be deployed at scale](#). Innovation will be especially important for hard to abate sectors, like cement, steel and chemicals and to deliver an energy system which is both secure and decarbonised. Failure to lower the cost of next generation decarbonization technologies could render European industry unable to future-proof for a climate aligned future, potentially costing Europe its industrial base and the millions of jobs dependent on it.

While other regions of the world, particularly the United States, are developing massive investment plans to support the decarbonisation of their industries, economy and lowering the cost of innovative technologies for global deployment, the EU risks going in the wrong direction, by reducing the size of the Innovation Fund by syphoning funds away for other purposes at the moment they are the most needed.

We call on the Member States to protect the Innovation Fund, respect its critical role in ensuring our climate goals are met and our industries can be transformed, and provide it with the fund it needs. However, we also urge Member States to not revert back to the proposal by the European Commission, which would seek to auction allowances held by the Market Stability Reserve. This would not only lead to additional emissions into the atmosphere, but also lower the carbon price signal for clean investments and lower the revenues that can be reinvested in clean solutions, including through the Innovation Fund. Rather, we urge Member States to follow the proposal by the European Parliament.

It is essential that the EU strengthens its industrial transition policy with more attractive, predictable and robust incentives for green industrial investment. The Innovation Fund represents one of the core EU-wide instruments for supporting the roll out and uptake of low carbon projects. Reducing severely the size of the Innovation Fund is exactly the opposite of what Europe needs in these times.

Thank you for your time and consideration.

We remain at your disposal for further information or questions.