Brussels, 8 December 2022

RePowerEU and Innovation Fund must go hand in hand to stop EU's de-industrialisation

Dear Minister Stanjura and Minister Jurečka,

The undersigned sectors fully support attached statement published by the federation of European businesses on 6 December 2022 in light of the negotiations between the EU institutions on the financing of the RePowerEU, on which they envisage to reach agreement next week.

Our industries support RePowerEU as it will help providing the energy carriers and infrastructures the EU needs for achieving its climate objectives and energy resilience. However, even more urgently than ever before the EU must also secure investment in the technologies to decarbonise energy intensive sectors in order to stop the EU's de-industrialisation.

While most of the financial resources required for the implementation of REPowerEU were budgeted under the Recovery and Resilience Facility (RRF), the Commission proposed to increase the RRF financial envelope with €20 billion in grants from the sale of EU Emission Trading System (EU ETS) allowances currently held in the Market Stability Reserve (MSR).

The European Parliament amended the Commission proposal to collect the €20 billion from frontloading of future EU ETS allowances, while the Council proposed to collect 75% of such amount from the Innovation Fund and the remaining 25% from the frontloading.

We are worried that the Council proposal will be in harsh contradiction with an industrial policy making the green transition a business case for our companies. The Council's proposal would divert around 170 million allowances (at current carbon prices) out of the 405 million allowances of the Innovation Fund. Also worrying is the Council position on the ETS revision to reduce the Innovation Fund by further 50 million allowances. Already the first call of the Innovation Fund in 2021 could not even provide 5% of the financing of all projects that had applied.

Energy intensive industries, which represent the foundations of strategic value chains in Europe, are currently facing unprecedented challenges from skyrocketing energy prices. At the same time, the business case for low carbon investments in these sectors in Europe is heavily challenged by more favourable and effective domestic industrial policies by some of the EU's major trading partners, such as the U.S. Inflation Reduction Act.

In such international context, it is essential that EU strengthens its industrial policy with more attractive, predictable and robust incentives for 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.

Instead, **co-legislators should return to the original <u>Commission proposal</u> of financing Repower EU from the Market Stability Reserve**, which can be used for this purpose without compromising the agreed climate ambition level or undermining the investment framework.

We urge you to take our request into consideration in the final negotiations and support the business case for our industries to invest in Europe.

Yours sincerely,

Axel Eggert

Director General, EUROFER

On behalf of the signatories

Cc: Finance and Environment Ministers of the Member States of the European Union

Cc: MEP Peter Liese

Cc: Executive Vice-President of the European Commission Frans Timmermans