

EUROFER position paper on Innovation Fund NER 400

The transition to a competitive low carbon economy is a major challenge for EU's society as a whole and for industry in particular. Such level of ambition requires the development of breakthrough low carbon technologies that are not currently available or economically viable but will have to allow deep emission reductions in the future while preserving the global competitiveness of EU's industry. This requires the mobilisation of significant financial resources, as investments in these technologies are highly capital intensive and have long and uncertain payback periods. Such support is even more important in the current economic context, where the financial ability of EU steel companies is undermined by difficult market conditions and unfair international competition.

Against this background, the EU steel industry welcomes the proposal to introduce an Innovation Fund under EU ETS phase 4 and its broadened focus to support industry. However, the following comments should be taken into account when developing this instrument:

- **The fund should be financed with allowances from the auctioning share rather than the free allocation share.** In order for sectors such as steel to invest and take advantage of the opportunities the Innovation Fund could bring, they need to remain internationally competitive and therefore fully shielded from the risk of carbon leakage. For this reason, allowances used to finance the fund have to come from the auctioning share.
- **The Innovation Fund should focus on abatement technologies in industry rather than power generation.** The power sector has been benefiting from significant financial support not only through the NER 300 under EU ETS phase 3 but also through numerous national renewable schemes. Therefore, the Innovation Fund should prioritise support to industrial technologies that may deliver significant emission reductions in energy intensive sectors like steel.
- **The maximum funding rate for industrial abatement projects should be increased to 75%.** Given the significant financial risks and competitive challenges facing the steel sector and other energy intensive industries, the current funding rate of 50% should be increased as per the Commission's Impact Assessment (IA). At the same time, the funding cap (limit of maximum 15% allowances per project) needs to remain sufficiently high to support large-scale projects.
- **Funding mechanisms should better promote risk sharing.** A major shortcoming of the NER 300 was that awarding of funding was subject to "verified avoidance of CO₂ emissions". This meant that most of the risk remained upon project participants. Complementary mechanisms such as upfront funding should be used to better share the high risk of truly innovative projects.
- **The timeline of funding should be shorter and more certain.** The administrative process should be simplified so that funding can be awarded at earlier stages of projects and with more predictability.
- **Funding opportunities should be open to a wide range of technologies.** Eligibility criteria need to be sufficiently flexible to cover all technologies that may contribute to significant and sustainable abatement potential.
- **Other financial resources should be mobilised.** Sources for funding should not be restricted to funds arising from the EU ETS. Quite on the contrary, this far-reaching

transformation of the EU economy needs to be supported by considerable funds both at national and European level reflecting the true requirements for R&D and innovation.

- **The regulatory framework should promote innovation as well.** The regulatory framework plays also a major role in investment decisions. Rules need to be sufficiently flexible and adaptable to encourage innovation. For instance, rules on carbon capture and usage (CCU) need to be revised in order to remove obstacles to this technology.

About the European steel industry

The European steel industry is a world leader in innovation and environmental sustainability. It has a turnover of around €170 billion and directly employs 320,000 highly-skilled people, producing on average 170 million tonnes of steel per year. More than 500 steel production sites across 24 EU Member States provide direct and indirect employment to millions more European citizens. Closely integrated with Europe's manufacturing and construction industries, steel is the backbone for development, growth and employment in Europe.

Steel is the most versatile industrial material in the world. The thousands of different grades and types of steel developed by the industry make the modern world possible. Steel is 100% recyclable and therefore is a fundamental part of the circular economy. As a basic engineering material, steel is also an essential factor in the development and deployment of innovative, CO₂-mitigating technologies, improving resource efficiency and fostering sustainable development in Europe.