Brussels, 8 October 2024

To Finance Ministers of the EU Member States and finance attachés
To Director General for Climate Action, Mr. Kurt Vandenberghe

Earmarking ETS revenues to deliver clean industrial competitiveness

Dear Finance Ministers of Member States and finance attachés,
Dear Director General for Climate Action, Mr. Kurt Vandenberghe,

The competitiveness of European industry and its interdependent relationship with decarbonisation sits at the centre of the European Union's policy agenda, as put forward by Commission President Von der Leyen's political guidelines and the European Council Strategic Agenda 2024-2029. The fundamental relationship between competitiveness and decarbonisation pathways is also advocated by Mario Draghi's report "The future of European competitiveness".

Public funding to de-risk and lower the costs of strategic clean technologies and solutions[1] is essential to boost industrial competitiveness, yet it falls short of its potential. The European Commission's own 2023 Strategic Foresight Report estimates a €620 billion private and public investment gap annually to meet the objectives of the Green Deal and REPowerEU.

Draghi comprehensively outlines a wide range of solutions and instruments to increase investments for boosting EU competitiveness while decarbonising its industrial sectors. **One of his recommendations specifically calls for a revision of the use of the revenues from the EU Emission Trading System (ETS)**, stating that "funds are not earmarked to bolster the path towards decarbonisation and the competitiveness of […] industries" (p.100). **Historically, Member States' ETS revenues have been poorly reported and, in 2022 alone, €11 billion were not spent on climate-related actions.**

ETS revenues are one of the major sources of funds at Member States' disposal. To bridge the current investment gap, **Draghi recommends earmarking ETS revenues towards industrial decarbonisation and incentivising more Member States' allocations to manufacturing of clean technologies.** The signatories of this letter welcome this recommendation, which needs to be done while **maintaining the Green Deal objectives at the centre of the EU competitiveness efforts.**

As Civil Society Organisations, cleantech innovators, investors, industry associations, and researchers we call on the Member States and the EU Commission to take into account the following recommendations when it comes to spending of ETS revenues[2]:

1. **All ETS revenues must be allocated to climate action-related measures. Revenues allocated to decarbonisation projects should prioritise the**

[1] Intended as both breakthrough and well-established technologies.
[2] The following recommendations do not address revenues collected via the ETS2, which are already destined to the EU Climate Social Fund to support most affected vulnerable groups.

development of a competitive clean industry, and the most impactful and strategic clean technologies and solutions.

Art. 10.3 of the ETS directive outlines the different spending categories for Member States to allocate ETS revenues. However, not all the spending categories implying decarbonisation projects outlined in the article will have the same environmental impact and this should be taken into account. The European institutions and Member States should consider the following points when allocating carbon pricing revenues:

a. **Climate impact**: decarbonisation measures must have a demonstrable climate benefit, and substantially contribute to the net reduction of the GHGs emitted to the atmosphere.

b. **System effects**: decarbonisation measures must be considered with a system optimisation mindset, not constitute an obstacle to the decarbonisation of other sectors, but rather be based on robust energy system planning and be coherent with a broader clean industrial transformation.

c. **Timing**: decarbonisation measures that make a positive contribution to climate action in a scalable and timely manner should be prioritised and be based on a clear decarbonisation roadmap.

d. **Do No Significant Harm (DNSH)**: decarbonisation measures must not inadvertently harm other environmental objectives of the European Union.

e. **Efficiency**: Member States must consider economic efficiency (e.g. costs per unit of carbon per euro of public money), such as used in carbon contracts for difference (CCfDs), taking into account the long-term perspective of the price of the technology. An efficient distribution of activities across the EU is also necessary to leverage each country's competitive advantage in developing clean technologies and solutions.

2. **Instead of spending up to 25% of ETS revenues for compensation of indirect carbon costs, this 25% should be invested in scaling strategic clean technologies and solutions.**

The Commission estimates €92 billion needed by 2030 to build the EU manufacturing capacity for only six strategic clean technologies. While the revised ETS Directive mandates Member States to spend all revenues on climate action, it provides for an exclusion of 25% of revenues that could be used for the compensation of indirect carbon costs (article 10a(6)). **Every euro spent in indirect compensation, is a euro less spent on climate action and does not contribute impactfully to the EU strategic competitiveness objectives**. Member States can choose and, instead, could spend a minimum of 25% of ETS revenues in scaling cleantech solutions and manufacturing to unleash effective net zero industrial transformation and bring back the EU leadership in the global cleantech manufacturing race.

3. **Member States must transparently report ETS revenue allocations, ensuring funds are earmarked for specific climate projects to allow scrutiny by civil society and evaluation by the European Commission.**

The historically poor quality and lack of accountability in Member States' reporting on the use of ETS revenues has been an obstacle to effectively assessing the impact of ETS revenues in the fight against climate change and it must stop now. The reformed ETS Directive and reporting system present an opportunity for Member States to clearly and transparently detail where these revenues are allocated. **It is crucial for these revenues to be clearly earmarked to specific climate projects allowing civil society and the European Commission to scrutinise them**. The Commission must use its authority as overseer of the spending to make Member States accountable and ensure the information they provide is clear, consistent with actual expenditures and effectively contributes to climate action.