



ETS INNOVATION FUND DELEGATED REGULATION

European Aluminium comments on draft text open to [public consultation](#) (Deadline: 7 August 2023)

7 August 2023

Comments Article by Article

Article 2: Definitions

It is commendable that the regulation now includes a definition for 'medium-scale project,' alongside definitions related to competitive bidding procedures.

Nevertheless, there is a conspicuous lack of references to the stages of innovation. The Regulation should reconsider its approach to small projects, avoiding excessive administrative burdens that could hinder their success. Given that national budgets differ significantly, the US Inflation Reduction Act (IRA) approach to small projects serves as an excellent model.

As a consequence, it is important to consider that:

- *All TRL stages should be eligible for funding and access to funding must be available to all EU Member States.*
- *The more mature projects and of a bigger size are a better fit for the EU Innovation Fund than the pilots (~Stage 3), both from the standpoint of a TRL readiness and GHG avoidance.*
- *For the large-scale commercial demonstration projects (~Stage 5), the timing of the project will matter to define the optimal time to apply to the EU Innovation Fund (the financial close can be reached max. 4 years after grant award).*
- *There needs to be also room for smaller-scale pilots, allowing for variations in both the TRL level and the GHG emission avoidance from their full-scale counterparts. These early stages are crucial for successful technology piloting and the demonstration of its potential. The Regulation should facilitate stage-wise development, acknowledging that medium-scale projects could represent preliminary stages of large-scale projects.*
- *The ETS Innovation fund must ensure that projects within specific sectors are financed until it is proven that this technology is commercially competitive.*

Article 3, Par a: Operational objectives

The clause "including projects aimed at scaling up with a view to their broad commercial roll-out across the Union" suggests that a project must attain a certain maturity level to secure financing for extensive commercial roll-out.

This remains ambiguous and necessitates further clarification.

Article 7: Disbursement of grants

Allocating only up to 40% of the grant at the financial closure is inadequate, particularly when the project demands substantial capital expenditure (in contrast to the 60% allocation at Commercial Operations Date (COD)).

The provisions in the US Inflation Reduction Act (IRA) could serve as a beneficial model in this scenario. The level of funding (%) and additional criteria essential for investment decisions should be assessed in comparison to the IRA or other non-EU funding mechanisms (e.g., Canada).

To note, the aluminium industry and value chain operates at a global scale. For this reason, such consideration is crucial for ensuring investment decisions are made within Europe.

Article 11: Award criteria

It is good that sector-specific calls are mentioned as an option in Article 11 3. We are however concerned that a hard-to-abate sector as Aluminium Primary Production (or the other production steps further upstream or down the value chain) could fail to have the possibility to reach the criteria related to the effectiveness in terms of greenhouse gas emission avoidance (i.e. criteria a, e and d) compared to other sectors.

This might be due to emission avoidance being easier and less costly to reach in other sectors and the electro-intensive nature of Primary Aluminium production, which makes the decarbonisation potential of Primary production very much related to the availability of cost competitive green power. Hard-to-abate sectors are called as such for a reason, and that reason is both related to the nature of the sector and the emissions, technology as such and the cost of implementing emission-free technology and consuming decarbonised power for those that are already electrified.

It is therefore important to include the following elements to the draft text:

- *The wording of the text must allow for sector specific calls that do not discriminate projects to decarbonise the aluminium value against others: avoided emissions via circularity, increased resource efficiency, consumption of low carbon electricity, and avoided emissions compared to the primary production route of the metal should also be considered among the award criteria.*
- *The wording of the Regulation should be clear to ensure that projects or financial guarantees covering the shaping and balancing services¹ for delivering RES electricity to industrial baseload consumption profiles like Aluminium Primary producers are eligible to the EU Fund. The mechanism could be similar to the competitive bidding mechanism under development for Hydrogen. In the future, such mechanism should also be designed so as to support the production of low carbon and circular materials like aluminium.*
- *We would also strongly support explicit reference to dedicated calls for CBAM sectors, as foreseen in the Recital of the revised ETS Directive. All sectors will need to work in parallel to reach the net zero goals, and for CBAM sectors the cost of production in Europe will increase due to the loss of existing carbon leakage measures and higher carbon prices due*

¹ See [Study](#): The Green Pool – A concept for decarbonizing the electro-intensive industry of Greece, March 2021

to the strengthened climate ambition under the revised ETS rules. Therefore, in Point 3, the phrasing could be adjusted to emphasize sectors covered under the Carbon Border Adjustment Mechanism (CBAM), as outlined in Recital 11.

- *A focus on the role of negative emissions, specifically Direct Air Capture and Carbon Storage (DACCS) and Bio-Energy with Carbon Capture and Storage (BECCS), to assist hard-to-abate sectors in achieving net-zero, needs to be materialized as soon as possible and receive sufficient funding from the ETS Innovation fund.*

Article 12: Selection procedure

It is important that any of the proposed criteria do not discriminate hard-to-abate and circular sectors such as Aluminium production. It is positive to note the amendments to Articles 12, 12a, and 13, which now allow project development assistance for all eligible projects, irrespective of prior grant applications.

We would however welcome some additional safeguards for electro-intensive industrial processes considered of "strategic importance."

Article 13: Project development assistance & cumulation

Terms such as "indirect management" and criteria 1 "The implementing body shall..." remain unclear and warrant further clarification.

The language in Article 13f can potentially cause restrictions concerning the cumulation of funds. Furthermore, the phrase "to ensure a level playing field" could potentially exclude projects that received national-level grants.

Fund cumulation will be key to secure the financial feasibility of integrated decarbonisation projects.

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