Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With 200 member organisations active in 40 European countries, representing over 1,700 NGOs and more than 40 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

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To the EU ministers responsible for trade, economy, industry, research, innovation, and space attending the Competitiveness Council

Dear Ministers,

As we enter the second half of this mandate, the moment has come to deliver on the clean industrial policy that was meant to be at its heart. Europe's climate and industrial future depends on whether we now accelerate the investment and transformation agenda promised by the Clean Industrial Deal – or allow short-term pressure from fossil incumbents to push it into reverse.

The urgency is clear. This summer's several consecutive heatwaves caused at least 35,000 excess deaths across Europe, while extreme weather is estimated to have cost Europe around €180 billion in lost productivity and disruption to food, energy and transport – equivalent to around one percentage point of EU GDP.

At the same time, industrial electrification is stalling as companies face the scale of capital investment needed to replace fossil-fuel-based furnaces and equipment. Decarbonising existing energy-intensive industries alone is estimated to require an additional €35 billion annually over the next two decades – around €48 billion per year in the 2030s and €22 billion in the 2040s[1].

This is why Europe needs to accelerate investment, not retreat from it. The Draghi agenda was fundamentally a call for massive investment and coordinated European industrial policy. Omnibuses that primarily remove environmental and social safeguards will not deliver that investment. They will not electrify factories, modernise industrial assets or create the jobs and prosperity Europe needs.

There is nevertheless a strong foundation to build on. Since 2016, at least €118 billion has been invested in European clean-tech manufacturing facilities, while employment in eight clean technologies reached around 950,000 jobs in 2023. Europe should build on this momentum and keep the momentum for green industrial policy at EU level alive.

[1] European Commission, 2024, Impact assessment report accompanying the communication 'Securing our future: Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society', SWD (2024) 63.

We therefore call on you to focus on four priorities:

1. **Protect climate ambition and make ETS revenues work for the transition**

The ETS must remain a credible driver of industrial decarbonisation. The Commission proposal would increase the cumulative ETS emissions budget by around 67%, or roughly 2 billion tonnes of additional emissions. This risks weakening the carbon-price signal precisely when industry needs investment certainty at most.

We call for the Linear Reduction Factor to remain at 4.4% until 2035 and only slowly reduced thereafter. If changed, the cap trajectory should stay as close as possible to the current trajectory to preserve a strong and predictable carbon price.

The proposed flexibilities through international credits and large-scale carbon dioxide removals (CDR) also risk weakening incentives to cut emissions at source while shifting costs onto public budgets. Their introduction should be quantitatively limited, starting as late as possible and be underpinned by strong safeguards: this includes a fallback mechanism for international credits and the cancellation of unused allowances for CDR.

At the same time, ETS revenues must be used to accelerate the transition. We call for:

- mandatory spending lines for climate finance and social purposes, including reskilling and upskilling of workers and just-transition support;
- increased transparency of ETS revenues and spending.

2. **Condition remaining free allocations to fossil-free investments in Europe**

Public support should not subsidise companies that receive free pollution rights while shifting investment and production outside Europe. Free allocations must therefore come with a credible obligation to invest in decarbonisation in Europe as set out in the EC proposal. We call for:

- requiring companies to produce a board-approved EU decarbonisation investment plan, verified by an EU competent authority and made publicly available;
- maintaining a 1:1 ratio between free allocations received over a trading period and investments in EU decarbonisation;
- strengthening the link between free allocations granted on the basis of the plan and the actual investments delivered on the ground, to avoid decarbonisation plans remaining unimplemented;
- limiting exemptions from the investment-plan requirement, including for companies among the 10% best performers under a benchmark. Depending on the current scope of the benchmark, existing fossil-free alternatives may not yet be reflected, even where they are essential to replacing fossil-fuel-based assets in the future.

3. **Support decarbonisation through lead markets for low-carbon products**

Carbon pricing can only drive investment if there is demand for low-carbon products. Europe will not compete on cheap fossil fuels; its industrial advantage must come from clean, future-proof production. With major projects already underway in strategic sectors such as steel, the priority is now to create reliable offtake for first movers. The Industrial Accelerator Act should complement an ambitious ETS by creating lead markets, rewarding frontrunners and driving investment in clean European production.

We therefore call for an IAA that could:

- Set public purchase and public support thresholds for low-carbon products that are based on the project pipeline volume by 2030, matching technical feasibility and the planned production by EU first movers.
- Ensure the definition of low-carbon products in the ecodesign regulation secondary legislation is aligned with production processes needed to achieve EU climate goals and cut dependencies to fossil fuels.
- Preserve workers' rights and environmental protection. Local content provisions are only making sense if they maintain societal benefits of goods produced in Europe underpinned by a strong environmental and social legislative framework.
- Decide clearly about the value chains Europe can diversify its supply for and those that are absolutely critical for Europe's long-term prosperity and for strategic reasons, which includes the transition to a resilient and fossil-free economy.

Yours sincerely,

Chiara Martinelli

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