

To:  
all Ministers of Environment of the European Union

June 2022

Dear Minister of Environment,

We are writing to you ahead of your next meeting on 28 June 2022, where you will discuss the revision of key climate files under the Fit For 55 package, including the crucial revision of the EU Emissions Trading System (ETS) Directive.

In particular, we want to raise our concern regarding the future uses of one of the EU ETS funds, namely the Modernisation Fund, as proposed in the draft Council General Approach (according to information published [here](#)).

Recognizing the urgency of the transition to clean energy for lower-income Member States, the European Commission increased the size of the Modernization Fund in [its proposal for the revision of the EU ETS Directive](#), a position recently endorsed by the European Parliament as well. Taking into account this augmentation, as well as the documented transfers of allowances from articles 10c and 10(2)b, the Modernisation Fund will consist of more than 837 million allowances for the entire 4<sup>th</sup> EU ETS phase. At the current carbon price (80 EUR/tn) this amounts to almost 67 billion euros to be used by the Modernisation Fund Beneficiary Member States.

However, despite the present energy and geopolitical crisis that has clearly exposed how much the EU and its citizens are vulnerable and dependent on fossil fuels (particularly fossil gas), **the Council is proposing to keep the doors of the ETS Modernisation Fund open to fossil gas investments** and lock the beneficiaries of the Fund to expensive and unsustainable fossil fuels for decades to come.

Specifically, even though the draft Council position claims that "*the Modernisation Fund should be aligned with the most recent climate objectives of the Union ... and eliminating the support to any investments related to fossil fuels*", the paragraphs added in the position are contradictory to that and provide a wide set of exceptions that would allow beneficiaries to use the Modernisation Fund to fund additional fossil gas projects.

The draft Council General Approach allows Member States to use revenues from the Modernisation Fund and transfers to it on "investments involving gaseous fossil fuels". More specifically, it allows spending up to 20% of the Fund (**EUR 13.4 billion** at current carbon prices) on so-called "non-priority" investments. This is a loose category in the Fund, with very weak constraints, utilised currently by some of the beneficiary Member States to finance non-climate friendly projects that would increase the EU dependency on fossil gas, such as conversions of coal plants to gas or biomass plants, or brand new gas-fired power plants, as in the case of Romania [in a recently adopted decision](#).

We further underline the fact that both the European Commission and the European Parliament support the full exclusion of investments in all fossil fuels from the Modernisation Fund. Moreover, we call on you to ensure consistency of EU legislation, since the REPowerEU plan aims at cutting EU's fossil gas use by 64% in 2030 compared to 2020 levels, more than double the previous 2030 gas reduction target of the Fit For 55 package. Therefore, the Council's proposal, as presented in the draft General Approach, to

support new fossil gas infrastructure via the Modernisation Fund is clearly inconsistent with the present priorities of the EU to break free from its fossil gas dependency, as well as with the goals of the package.

A [clean Modernisation Fund would have the potential to be a real game-changer](#) for lower-income EU Member States, especially in countries like Bulgaria, Greece, Slovakia or Croatia, to achieve the just energy transition needed. It can help fill the investment gap to reach the EU 2030 targets, which is quite significant. The missing investments in electricity grids and their digitalisation are one good example of how those resources should be urgently used, given the long investment cycles of such projects.

**We urge you to adopt a position aligned with that of the European Parliament, and in particular:**

- **Disallow any use of the Modernisation Fund for any fossil fuel project. Exceptions to this provision will only perpetuate the EU dependence on fossil fuels.**
- **Channel 100% of the Modernisation Fund to priority projects (European Commission proposed 80%, the European Parliament already voted in favour of 100%), which means in practice deleting the “grey” non-priority section of the Fund. This is the only way to assure that resources will be used solely on the much needed investments in energy systems modernisation without wasting valuable funds on fossil fuels.**

We remain at your disposal for any further exchange and count on your support to ensure that the use of the Modernisation Fund will be in line with EU’s climate goals and the well being of EU citizens.

Yours sincerely,

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Organisations supporting the letter:

