Now is the Time to Invest in EU Innovation

The Innovation Fund is critical to the EU's decarbonisation, energy autonomy and industrial competitiveness.

According to the IEA, clean technologies which are yet to become commercially available will deliver half of the decarbonisation needed for a net-zero economy. They are also a driver of future economic and industrial competitiveness, and high-quality jobs. Many of the companies bringing clean technologies are new start-ups and/or small companies ready to grow. Beyond decarbonisation, clean technologies are the only solution to the EU's pressing energy autonomy problem.

Despite this, at a time when the US is announcing hundreds of billions of dollars of tax credits, grants and loans for clean technologies, the EU is considering slashing the financial size and diluting the focus of its main vehicle for financing the scale-up of clean technologies: the EU ETS Innovation Fund. This would be a historic mistake and would reduce the EU's ability to lead the future net-zero economy.

The Innovation Fund is the EU's main financial instrument supporting the scale-up and early deployment of innovative low-carbon technologies, meant to be supporting them to reach commercialisation. As part of the EU ETS ongoing negotiations, a counterproductive take on the Innovation Fund risks reducing it in size by reallocating parts of it to other financing streams, as well as by broadening it to also finance the deployment of technologies that are already mature and profitable, and mostly need faster permitting to succeed, not additional funding.

We, the undersigned, call on the European Parliament, the European Commission and the Czech Presidency of the Council of the European Union to ensure that the Innovation Fund is increased instead of reduced, that its integrity as an Innovation Fund is maintained and not used as a bank for other financing streams. Additionally, we call for a renewed focus of the Fund on scaling-up innovation towards commercialisation, while other funding instruments are developed to support the deployment of already commercialised technologies. Below we elaborate on our concrete proposals.

Proposal 1: Grow the Innovation Fund, instead of shrinking it

The recent investment package from the United States, known as the Inflation Reduction Act, raises the bar for all global actors in the innovation race, including for the European Union. An appropriate response on the EU side, would be ensuring the original size of the Innovation Fund (agreed back in 2017-2018) is increased in order to enable it to support the scale up of key technologies, and compete with US peers. US-based cleantech scale-ups already have a significant edge when it comes to private funding, we should not compound it with weakened public funding.

We call on the negotiators of the EU ETS, the European Parliament, the European Commission and the Czech Presidency of the Council of the EU to double the size of the Innovation Fund, from 400 million EU ETS Allowances (EUAs) to at least 800 million EUAs. Additionally, securing its value by introducing a carbon floor price of at least 80 €/t would give a reliable guarantee of the future availability of these sums.

Current proposals to reallocate parts of the financial value of the Innovation Fund to RePowerEU run counter to the very goals of the Fund. Additional proposals to auction allowances from the Market Stability Reserve of the EU ETS risks destabilising the price of EUAs and therefore could lower the size of the

Innovation Fund. Both of these measures should be avoided at all costs, to ensure that funding for Innovation is maintained and grown at a time of high-inflation as well.

Proposal 2: Maintain focus on Innovation and Innovators

Transforming the Innovation Fund into a "Climate Investment Fund" should be avoided as this would risk diluting it. Dedicated financial support for commercialisation is urgently needed to scale a wide portfolio of clean technologies, such as low-clinker cement, innovative renewables and renewable hydrogen in industries like steel, is crucial to accelerate decarbonisation and transformation of the hard-to-abate sectors in the EU. The Innovation Fund's ability to compensate for the market failures that put industrial innovators at a competitive disadvantage is key.

The Innovation Fund's focus on commercialisation of existing innovation is what sets it apart from other public support mechanisms, and what makes it impactful. Going forward the Fund must level the playing field and give more support to projects involving low or zero carbon technologies that outright mitigate GHG emissions and reduce the dependency on fossil fuels.

Proposal 3: Make it more accessible to the new generation of industry

The Innovation Fund was designed to transform the power and heavy industry sectors. Today, innovative SMEs, start-ups and scale-ups are at the forefront of these sectors' transformation. The Innovation Fund needs to adapt to this reality and become more accessible and open to SMEs and industrial start-ups. These companies are often the ones bringing the most innovative and emission mitigating technologies to the market and likely the ones that benefit and need the support the most.

The first two rounds of calls for projects under the Innovation Fund revealed a disproportionate preference for large corporations (according to our analysis, even in the small-scale window, 70% of recipients were big corporations, and 100% in the large-scale call). The new call being proposed for pilot projects is a step in the right direction and is encouraging, but more needs to be done. One option is to switch to "always-open" calls, allowing for a more inclusive process between expert reviewers and applicants. This has been a pillar of the success of the comparable US Department of Energy's Loan Programs.

Proposal 4: Use the 'near-miss' projects to develop a sharper selection criteria

Companies that made it through the selection criteria, but nearly missed being selected require special attention for how they can be supported to still obtain financial support in developing solutions which clearly are in the low-carbon innovative category. Understanding their experience should be at the core of developing lessons for improved selection processes and a sharper selection criteria.

Proposal 5: More support is needed for innovative renewables and renewable energy value-chains

The first two calls of the Innovation Fund revealed that many of the technologies that are critical to the success of the REPowerEU plan have had low success rates (renewables and their value-chains in particular). In the context of the recently endorsed target of 5% innovative renewables and 45% minimum renewables by 2030, we believe this must urgently be changed.

Signatories