



ART Fuels Forum Comments on the Public Consultation on the draft Innovation Fund Delegated Regulation

INTRODUCTION

The ART Fuels Forum (AFF), established under the project: “Support for alternative and renewable liquid and gaseous fuels forum (policy and market issues)”, is financed by the European Commission DG Energy and aims at bringing together selected representatives of:

- the European Alternative and Renewable Transport fuels (ART fuels) production industry
- the transport consumption industry
- the main international cooperation actors and
- the EU policy makers and stakeholders

towards facilitating discussion and elaboration of common issues on policy and market penetration barriers for these fuels.

INTRODUCTION

The project contributes to enhancing and strengthening the understanding of the needs of the ART fuels sector in view of improving:

- policy understanding and its implementation at European level
- appreciation of market uptake issues
- technology insight and deployment issues
- appreciation of international cooperation, WTO and GHG emissions issues

The Forum integrates a series of organized and structured discussions, plenary meetings, preparation of position papers, etc. towards shaping strategies and policies for market deployment of ART fuels.

AFF welcomes the Public Consultation on the Innovation Fund (IF) delegated regulation¹ as the IF will be an important source of financing for the demonstration and First-Of-A-Kind of advanced biofuels and alternative, low carbon fuels, supporting in this way the market deployment of these innovative technologies and processes, and thus overcoming the valley-of-death barrier.

AFF also welcomes that the lessons learned (mostly negative ones) from its predecessor NER300 are integrated into the management of the Innovation Fund to make it more transparent, flexible and hence more effective, as well as industry- and investor-friendly.

SPECIFIC COMMENTS

Please find below our comments to the draft Delegated Regulation formulated after consultations with the AFF coordinators, but it is noted that this document does not necessarily reflect, partially or in full, the opinion of each and all members of the AFF, nor the opinion of the European Commission.

Before giving specific comments to the Delegated Regulation itself, AFF wants to raise a concern and an observation.

- Since the IF will absorb the remaining funds from the second call of the NER300 program and while IF has a much broader technical scope than was the case for the original NER300 program, AFF is concerned about diluting the funds that were available for e.g. biofuels and other technologies of the NER300 program by now also including other industrial sectors. AFF therefore strongly recommends that the remaining NER300 funds are retained for projects within the same scope for which it was originally intended, i.e. CCS and RE energy, but without prejudice to access funding from the new capital injected into the IF. The decarbonization of transports is lagging behind other sectors and sees less trends towards the goals, and therefore, e.g. biofuels must be in the focus of the fund to initiate the desired development.

¹ https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2017-3157624_en#isc-2018-07797

SPECIFIC COMMENTS

- Secondly, the draft Delegated Regulation has a reference to the SET Plan in the Explanatory Memorandum section under the heading Context on page 1. It is evident that the defined IF industrial sectors in Table 1 (pages 7-8) overlap with many of the SET Plan actions. Since the SET Plan actions during 2018 have revised their Implementation Plans, setting targets, defining research and innovation actions in some detail, AFF therefore recommends that the Delegated Regulation should not only refers to the SET Plan in general, but also to the calls, and references that are made to the respective Implementation Plans and their identified R&I activities for the relevant IF industrial sectors.

Referring to the draft Delegated Regulation as being the basis for the Public Consultation AFF has the following more detailed comments.

Article 5

AFF welcomes the provision that a conventional production comparator does not exist, which is typically the case for biofuels, renewable fuel and recycled carbon fuel projects. However, it is not clear who will be deciding if there is no conventional comparator, and when such a decision will be taken. For a proponent, the outcome of this would affect the entire proposal preparation process and may even affect the decision to make a proposal or not. AFF therefore recommends that such a decision is already made in the call text for the different sectors, e.g. biofuels, when possible, and also that the call text defines other procedures for projects not fitting into such a generalized view (i.e. the Delegated Regulation).

Article 6

The Delegated Regulation does not explicitly state that if pre-funding of tranches of the 60 % of the eligible grant funding, which are ultimately related to achieving GHG emission reductions, will be subject to reciprocal financial guarantees. AFF recommends that this is added to the text if this is the case.

In the NER300 program, it was the member states (MS) that were the only source to provide such guarantees, and very few projects benefited from this pre-financing. Government guarantee options differ between the member states, some have formal difficulties to provide such guarantees to private entities or do not want to set precedents for government guarantees that may eventually spill over to other policy areas.

AFF recommends that the arrangements acceptable to the IF is not limited to MS guarantees, other forms of commercial guarantee provisions should also be accepted (proponents collateral securities, commercial bank guarantees arranged by the proponent, performance bond guarantors, plant output insurances etc.), and that associated cost are eligible project costs.

Article 8, item 4.

The purpose of the IF is to stimulate low-carbon innovations that by multiplication of its deployment can have impact on GHG emissions at the EU level. At the same time

SPECIFIC COMMENTS

experiences, both good and bad, are an important source of learning, development and improvement.

Therefore, funding bodies should encourage projects to continue to operate even if struggling to hopefully emerge after a difficult initial period with improved technical know-how and enhanced data provision after a difficult initial period. But in many economic reasons causes an early termination for lack of sufficient revenues and negative cash flow for a longer period than anticipated, and before an actual verdict can be obtained. The result is that both know-how and experience are lost, and the investment capital (financial and human) is more or less wasted, and it is often said that the technology, and not the project, has failed.

The way that the claw-back procedure is described in Article 8, section 4 focuses too much on the GHG emissions target, and the exemptions for a claw-back relate to external reasons for failing. AFF recommends that a decision for recovery of grants should be made more flexible and considered on a case-by-case basis. A claim may in itself derail an operating but struggling project and introduces a financial risk in addition to other risks assumed by the proponents and investors.

So, AFF recommends that after an individual project evaluation, other means of recovery e.g. renegotiation to forward the objectives of the IF in a different form. Such conditions could be e.g. a refinancing, a commitment to invest and improve plant sections not performing to the expected standard, or to continue operation for a period of time to encourage overcoming technical barriers.

Article 9, 10, 11, and 12

These articles are commented together as the comments reflect more than one of the articles. AFF would like to see in more explicit terms the strategic perspective being applied in the selection of sectors/technologies and in the selection procedure, i.e. sectors with a high share of GHG emissions or a low rate of decarbonisation should be given a certain priority, one clear example being the transport sector.

The two-stage application procedure also raises some concerns. First, the time of the process entire process of EoI-evaluation-full proposal-evaluation-contract negotiation should be kept to a minimum, the duration of this process in NER300 took years to complete. Such extended period of uncertainties when the project has small possibilities for acting are not seen as positive by investors. Secondly, AFF sees as a possibility that commitments made in the EoI are significantly watered down in the second stage evaluation and in the contract negotiation, at the expense of other applications not being scored as high in the EoI evaluation or proposal evaluation. It should be deemed as a material change to the grounds of the positive evaluation if an application, overstates its performance or commitment in the initial phases compared to the situation at contract negotiation, and the proposal be rejected.

The regulation stresses passing of contractual milestones for the continuation of support, which is also welcomed by AFF. In NER300 projects in most cases became inactive after some time while not actually being terminated after long delays such that it was not

SPECIFIC COMMENTS

possible to use such funds for alternative projects. Rejection or withdrawal in the evaluation and negotiation phase can also cause projects to be terminated or terminate prematurely. A re-allocation mechanism is needed to go for other projects within the same call. AFF sees that the organisation of a reserve list with a ranking containing eligible project not being within the budgetary or other constraints of a particular is a way to improve the use of the funds.

We look forward to the IF first call in 2020 and we hope that the Fund will become a strong supporter of decarbonisation projects in the AFF area of activity, i.e. the transport sector.

ABOUT ART FUELS FORUM

The ART Fuels Forum brings together more than **100 high-profile experts** representing **leading Industries** in the area of ART Fuels, aiming at producing **evidence-based opinions** and conveying the collective interest of the ART Fuels industry towards the elaboration of common positions on policy and markets.

The Forum is established and financed by the European Commission under the project name “Support for alternative and renewable liquid and gaseous fuels forum (policy and market issues)”. The Forum focuses on sustainable advanced liquid and gaseous transportation fuels derived from a broad range of non-food feedstocks using specialized conversion technologies. These transportation fuels include, among others, fuels produced from thermochemical and biochemical conversion of lignocellulosic biomass, fuels from algae and microbial biomasses, power to gas/liquid fuels, solar fuels, fuels from industrial waste gases, fuels from municipal solid waste, plastic waste and refinery waste, and co-processing of biomass intermediates in existing refineries.

www.artfuelsforum.eu

DISCLAIMER - The above response to the the Public Consultation on the draft Innovation Fund Delegated Regulation has been drafted by the assigned Working Group of the Alternative & Renewable Transport Fuels Forum (ART Fuels Forum) after exchange of opinions and internal consultation among the Forum members. The content of the response does not necessarily reflect the views of all members of the ART Fuels Forum, but is a synthesis of the main positions. The positions and recommendations listed above are those of the members of the ART Fuels Forum and do not necessarily reflect either the official position of the Commission or the complete position of the members of the ART Fuels Forum.

Project Management of ART Fuels Forum



ENERGY & ENVIRONMENT CONSULTANTS
Omirou Str. & Vissarionos 1, 10672 Athens (GR)
Tel: +30 210 6996185, e-mail: office@exergia.gr

Scientific Coordination of ART Fuels Forum



RE-CORD, c/o Dept. of Industrial Engineering,
University of Florence, Viale Morgagni 40, 50134 Florence (IT)
Tel: +39 055 2758690, e-mail: info@re-cord.org

