



POSITION PAPER ON THE ESTABLISHMENT OF THE INNOVATION FUND

INTRODUCTION

The ART Fuels Forum¹, contributes to the EC DG Climate Action public consultation on the establishment of the Innovation Fund with this brief position paper and by responding to the relevant online questionnaire².

KEY MESSAGES

The ART Fuels Forum:

1. warmly welcomes the establishment of the Innovation Fund.

¹ The Alternative Renewable Transport Fuels Forum is an initiative financed by DG ENER promoting the deployment of sustainable alternative fuels in the transport sector. For more information please see: <http://www.artfuelsforum.eu/>

² <https://ec.europa.eu/eusurvey/runner/InnovationFund2017?surveylanguage=EN>]

KEY MESSAGES

2. stresses the urgency for a quick establishment of the Innovation Fund in order to accelerate the market deployment of low carbon innovation. Given the limited remaining Carbon Budget to stay within the 2 degrees Celsius pathway, not only a reduction of existing accumulated Greenhouse Gas emissions at some later stage is needed, but also the road to immediate reductions and mitigation should be opened as a means to develop and later accelerate the deployment of new, low-carbon technologies.
3. strongly emphasises that the Innovation Fund must be a strategic tool for the European Commission to direct financial support to innovation initiatives that help accelerate development and market deployment of Renewable Energy and Carbon Emission Reduction measures, as a means to achieve the Paris Agreements.
4. wants to express firmly that a substantial share of the available funding under the Innovation Fund is allocated to technology innovation in the transport sector. Compared to other economic sectors, the Greenhouse Gas emissions in the transport sector do not show a clear downward trend. This is due to the complexity of the match between infrastructure and the different transport modes, the rigidity of the transport chain that makes the introduction of innovation very difficult, as well as the higher economic, technical and non-technical barriers for low-carbon transport technologies, compared to other technological areas. As such, the transport sector is expected to become not only a dominant sector for GHG emissions, but also an area where policy and innovation become critical factors in achieving the Paris Climate Agreement goals.
5. wants to highlight the necessity to retain the undisbursed revenues of the NER300 fund within its original scope of advanced biofuels, CCS and renewable power. ART Fuels Forum advises to broaden the scope to technologies included under the Sub Group Advanced Biofuels (SGAB) definitions, including renewable fuels, CCU (including BECCU and capture of both CO and CO₂). Following on point 4, since these funds are already available, after the adoption of the Innovation Fund regulatory framework, the inception phase to the use of these funds could be short as no sales of emission rights are required.
6. wants to make clear that point 5 should not in any way be seen as precluding that the transport sectors receive a tranche of new funds that will be made available proportionate to the importance of the sector to achieve the 2 degrees Celsius target.
7. urges the Commission and the European Institutions to design the Innovation Fund, learning lessons from the limited implementation success of NER300 projects and recognising the investment effort done by the industrial stakeholders in developing new pathways (also in the framework of EU programmes as FP6-7, H2020, etc.), in such a way to help investors and industrial partners to make commercial projects happen. ART Fuels Forum strongly advises that a new Innovation Fund programme should cover the full development cycle of projects, and provide a risk-sharing

KEY MESSAGES

mechanism throughout all development phases of a project, i.e. tranches of funding for project development/FEED phase, for the investment phase and also for the initial operational phase.

8. Urges that funding be available for commercial projects for technologies that are in an early commercialization phase (i.e. fewer than X projects worldwide) in order to enable take-off at commercial scale, as it continues to be difficult to fund projects through traditional financing until technologies are more mature.
9. proposes to develop evaluation and/or allocation procedures for funding in which the industrial technology developers, in close collaboration with financial investors and/or venture capital providers, are placed central and viewed as focus point, around which funding institutions are positioned as financial service providers. (examples are: open calls without pathway limitations, with cut-off dates and an yearly budget allocation instead of a limited number of Call for Projects per annum, transparent published evaluation criteria and time frames, syndication of financial bodies to provide tailor made offerings, reduce the number of interfaces with specific requirements for project developers).

With respect to point 6 we would like to make the following additional statement:

The NER300 programme provided funding for a period of time in proportion to product output. During project development and for the Final Investment Decision NER300 did not give any alleviation for the technical or market risk exposure prior to the regular production phase. Many projects selected under NER300 lacked the fund support - i.e. they were not sufficiently rewarding or bankable in view of technical, market and policy risks to come to construction. Hence, these project, although selected after an evaluation by the EIB, would never reach the regular production phase and 'collect' the NER300 funds already allocated to them.

An improved IRR **and** sharing risk would have a more supportive impact particularly in early stages but is supportive also in later project stages to survive the step from demonstration to commercial scale. Examples of such instruments, to be used as appropriate given the TRL and project development status, are (i) direct grants³, (ii) loans provided with no or less collateral security as compared to senior loans or parent bond security, or (iii) back-to-back loan guarantees for senior debt. ART Fuel advises to carefully evaluate viability of projects to achieve start-up phase.

³ Grants in general will only provide a rather limited support, as compared to the overall investments. Investment decisions will most likely not depend on this. On the other hand, grants can be very important for the development phase, keeping pace and quality to the development of as project in that stage. Furthermore, up-front grants (e.g. 10% of total investment) can have a large impact on the net present value and IRR of projects.

ABOUT ART FUELS FORUM

The ART Fuels Forum brings together 100 experts and leaders representing the value chain for alternative transportation fuels to facilitate discussions, elaborate common positions on policy issues and identify market penetration opportunities and barriers for these fuels. 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)”. It is composed of stakeholders from the European alternative and renewable transport fuels (ART Fuels) production industry, the transportation sector, the main international cooperation actors and EU policy makers and stakeholders.

ART Fuels 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 Position Paper on the establishment of the Innovation Fund has been drafted by the assigned committee 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 Position Paper 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



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