

EIT Climate-KIC Key Messages

For the establishment of the ETS Innovation Fund

This document supports the EIT Climate-KIC views communicated during the relevant European Commission public consultation process.

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Our position on the establishment of the ETS Innovation Fund

Innovation is essential for the transition to a net zero-carbon economy and accelerate the whole system transformations required to trigger exponential increases in the rate of decarbonisation. So far incremental progress has dominated policy and innovation efforts – what was easy to do has been done. From now on we need radical transformations – to breakthrough differences in our economic, business and behavioural models.

Our experience with pan-European innovation, based on a collaborative approach involving actors from across sectors and geographies, shows that complex societal challenges can be successfully tackled by bringing together different viewpoints around ambitious missions. Electric power production shows something of what is possible with the right combination of support. Our attention must now be focused similarly on production systems (from linear to circular flows), mobility, construction and infrastructure (basic materials and circular material flows) and engaging agriculture & land use (turning agriculture from a carbon source to a carbon sink).

EIT Climate-KIC is supported by the European Institute of innovation and Technology. We are one of six KICs acting together as global innovation leaders, delivering world-class solutions to societal challenges. The EIT brings together a large and diverse pan-European innovation community of excellent partners from business, research, academia, public and private organisations. Collectively we operate across the entire value chain of innovation, from education to the market and have built a unique innovation ecosystem, providing genuine pan-European added value.

EIT Climate-KIC welcomes the ETS Innovation Fund and consider it as a crucial step towards accelerating the inevitable zero-carbon transition; turning it into an opportunity to increase the resilience and prosperity of the European economy. Just as climate change affects all sectors and societal actors, innovative responses shouldn't be limited to those emitting most, but invite in new perspectives and ideas, and focus on promoting collaboration within and across industries. The scope and type of activities supported will determine the success of this fund.

Strategic principles for the ETS Innovation Fund

- (1) **Strategic approach to innovation is key to achieving systemic change:** To effect rapid systems change, we need an innovation model that can impact multiple leverage points simultaneously, to move the system in a new direction and decarbonisation rates to accelerate.

A strategic innovation model involves creating portfolios of deliberate innovation experiments designed to learn how to intervene within and across whole systems. This approach generates alternative business and industrial models and creates options for choice and momentum. It nurtures innovation from the demand side, searching for, stimulating and co-creating new ideas, solutions and technologies relevant to the changes we need or are emerging in underlying assumptions, economic paradigms, habits and values. ***Innovation funding needs to move beyond single point solutions seeking return in the short term to prove value.***

To solve climate-related societal and economic challenges in time. A new approach to funding is needed, with appetite to **take risk** and to **invest** in non-linear structural change, a willingness to acknowledge and learn from failures and the mandate to make space for deliberately chosen combinations of interventions working together to have direct and indirect effects on industrial ecosystems and on social change.

- (2) **Innovation where others will not go:** Public funding needs to continue to provide catalytic support to early-stage business models, technology, and ideas development, but with greater appetite for risk and uncertain outcomes. We need to support new entrepreneurs and businesses whose models are not yet proven but

whose understanding of the needs they are serving is clear. We also need integrated support for SMEs to enable high growth new businesses to scale to market. This requires active partnership between innovation platforms and policy makers in order to prototype, through practical projects, adjustments to policy and regulation necessary to enable the scaling of new approaches.

- (3) **Entrepreneurial mindset for creative, transformative solutions:** In order to successfully deliver on innovation investments, supporting entrepreneurial individuals within large organisations (intrapreneurship) and young companies with an entrepreneurial mindset, is critical. Entrepreneurship and innovation go closely together; entrepreneurial start-ups push the economy, help incumbents identify and adopt new opportunities and, importantly, direct investment resources to the new opportunities. Exploiting this connection for positive impact on climate change is a strong element of fostering strategic innovation.

The ETS Innovation Fund should prioritise programmes and projects that capture how increasing uncertainty, technological change, disruption, and the radical changes can manifest themselves in actual concrete change, for this, supporting intrapreneurship/entrepreneurship is a concrete tool.

- (4) **Build and invest in existing innovation networks and clusters:** The Knowledge and Innovation Communities (KICs) have already established pan-European capacity and expertise to support these endeavours. Innovation clustering is a critical element in accelerating the speed of innovation response to climate change. Our experience tells us that investors and corporates, who can provide the propulsion for scaling and deploying innovations, want efficient means to identify and access new innovations. This points to organisations such as the KICs playing a key role in connecting and curating innovation clusters in such a way that Europe's best innovations have the greatest chances of success and market access.

Specific recommendation for the priorities of the ETS Innovation Fund

In order to achieve sufficient and timely impact on the encroaching challenges of climate change and accelerate the opportunities that circular economic models and carbon productivity present, the modalities of the ETS innovation fund should prioritise:

- a) Support for non-technological as well as technological innovation; in particular development of new business models and new paradigms of economic value, social and economic return with the potential to catalyse systemic change;
- b) Support for cross-sector and cross-industry collaboration in the form of collaborative projects that encourage three-dimensional business model design and end-to-end resource management across industries in support of circularity and symbiosis;
- c) Support for entrepreneurial activities and collaboration with European citizens and with potential customers to successfully deliver on innovation investments;
- d) Incentives for SMEs, start-ups and new business consortia to bring disruptive innovation to bear on sectors dominated by traditional incumbents;
- e) Innovation in alternative materials and exponential technologies with potential as climate change solutions, e.g. advanced manufacturing, nano-technology, bio-technology, genetics, digital intelligence and quantum computing. Coherent links and interdependencies need to be actively promoted through climate positive innovation, for example, in Industry 4.0 development;
- f) Support for innovation in policies and standards necessary to enable scaling of sustainable, climate positive solutions.