



Innovation Fund:

Expert Group meeting 8 June 2018, CoR



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Role of this expert Group

- to assist the Commission with the preparation of the Innovation Fund delegated act
- to advise the Commission on the aspects that have not been defined in the ETS Directive
- to advise how to maximise the benefits of the Fund through crowding-in of public and private investments and knowledge sharing.
- members appointed for one year

Rules of procedure of the expert Group

(details rules in the separate document)

- meetings convened by DG CLIMA
- invitations, draft agenda and documents sent to the group members min 10 days ahead of the meeting, 5 days in urgent cases
- group expresses its opinion, adopts its opinion by consensus (or simple majority)
- minutes drafted by DG CLIMA
- correspondence for group members:
CLIMA-IF-EXPERTGROUP@ec.europa.eu.
- in agreement with DG CLIMA, the group may, by simple majority of its members, decide that deliberations shall be public.

Building on NER300

- *Important knowledge gathered during NER300 implementation, also based on NER 300 lessons learned study.*
- *Main design issues to improve:*
 - Detailed technology list and pre-defined capacity thresholds-based eligibility
 - Cost per unit of performance (CPUP) – as the only selection criterion
 - Heavy governance with multitude of layers and actors
 - Financing support provided upon entry into operation (essentially re-financing not geared for a technology push mechanism)

IF expert consultations – Key messages:

- ✓ *No shortage of low-carbon solutions that should be demonstrated in the coming decade*
 - **85 pathways & technologies identified, many of them cross-sectoral**
- ✓ *Markets, technologies and investments change and evolve rapidly*
 - **flexibility in eligible technologies**
- ✓ *Cross-sectorial cooperation may unlock new value chains and economic benefits, strong interest*
 - **CCUS infrastructure, Hydrogen, Energy Storage or Integration of Renewables**

- ✓ *Financial support for projects should be linked to their risk profile*
 - **A variety of financial products**
- ✓ *Milestones funding according to investment cycle*
 - **Re-direct financing from underperforming projects to new projects**
- ✓ *Complementarity with other relevant EU and MS Financial Instruments*
 - **Innovation Fund as a set of financing products and services**
 - **Project lifecycle perspective (not programme perspective)**



Scope:

- ✓ **Size:** 450+ million allowances + NER300 unspent funds, expected volume **over EUR 6 billion**
- ✓ Breakthrough innovation in **low-carbon technologies** and **processes** including **CCU**, and **products** substituting carbon intensive ones produced in ETS Annex I sectors
- ✓ Environmentally safe **CCS** projects
- ✓ Innovative **RES** and **energy storage**
 - In geographically balanced locations **within EU**
 - Projects in all MS **including small – scale projects**
 - Subject to a **delegated act** for implementation rules

* Art 10a(8) of the ETS Directive EU/2018/410

Rules for financing:

- ✓ *up to 60% of the relevant costs of projects may be supported, out of which **up to 40% need not be dependent on verified avoidance of greenhouse gas emissions** provided that pre-determined milestones are attained*
- ✓ *the maximum **percentage of project costs to be supported may vary** by category of project*
- ✓ *due consideration to projects that will have a **significant innovation impact** across the Union*

Rules for project selection:

- ✓ on the basis of **objective and transparent criteria**, taking into account, where relevant, the extent to which projects contribute to emission reductions **well below the benchmarks**
- ✓ potential for **widespread application** or for **significantly lowering the costs** of transitioning towards a low-carbon economy...
- ✓ projects involving **CCU** shall **contribute significantly to climate change mitigation**, shall **deliver a net reduction** in emissions and ensure **avoidance or permanent storage** of CO₂
- ✓ technologies receiving support shall **not yet be commercially available**, but shall represent **breakthrough solutions** or be **sufficiently mature** to be **ready for demonstration at pre-commercial scale**



Rules for financing:

- Relevant costs
- Type of support
- Funding rate, timing of calls

Rules for application/selection

- Eligibility criteria
- Application process
- Selection criteria

Rules for governance:

- Governance
- Geographical balance

Rules for financing: Relevant costs - options

- Should the Innovation Fund support the **additional CAPEX** related to innovation?
- Should the Innovation Fund support also the gap in **additional OPEX**? If so, for how long since entry into operation, and in which cases this could be justified?
- Any other suggestions for the relevant costs?

Type of support - options

1

**Grants only, as in
NER 300**

2

**Financial instruments
only** (guarantee/first
loss cover) based debt,
equity-type debt and/or
equity provision

3

**A mix of financing
products**, combination of
grants and financial
instruments

Funding rate, calls timing - options

<p>For grants</p>	<p style="text-align: center;">1</p> <ul style="list-style-type: none"> • Single maximum funding rate for all projects (i.e. up to 60% of relevant costs) • Regular calls (e.g. every two years) 	<p style="text-align: center;">2</p> <ul style="list-style-type: none"> • Varied rate set according to TRL of project, with maximum of 60% of relevant costs applicable to the lowest TRL • Regular calls (e.g. every two years)
<p>For financial instruments</p>	<ul style="list-style-type: none"> • Up to 60% of relevant costs, in line with term-sheets of relevant products offered under financial instruments. • Continuous award (open call based on first come, first served basis) 	

Rules for application/selection

Eligibility Criteria - options

1

Closed list of innovative eligible technologies with pre-defined minimum capacity thresholds

2

- **List of eligible sectors (ETS Directive)**
- **Technology readiness level (TRL 6-9)**
- **Market readiness (ability to reach financial close within 4 years of contract signature)**
- **No capacity threshold**

Application process - options

	1	2
For grants	Single stage application as in NER 300	Two-stage application, comprising expression of interest and main call. Project development assistance available mainly for first stage successful applicants.
For financial instruments	Multistage process, in line with the applicable procedure and funding agreement under the relevant financial instrument.	

Selection criteria - options

1

A single indicator of cost efficiency - Cost per unit of performance (CPUP)
(€/tCO₂ avoided or €/kWh of renewable energy produced)

2

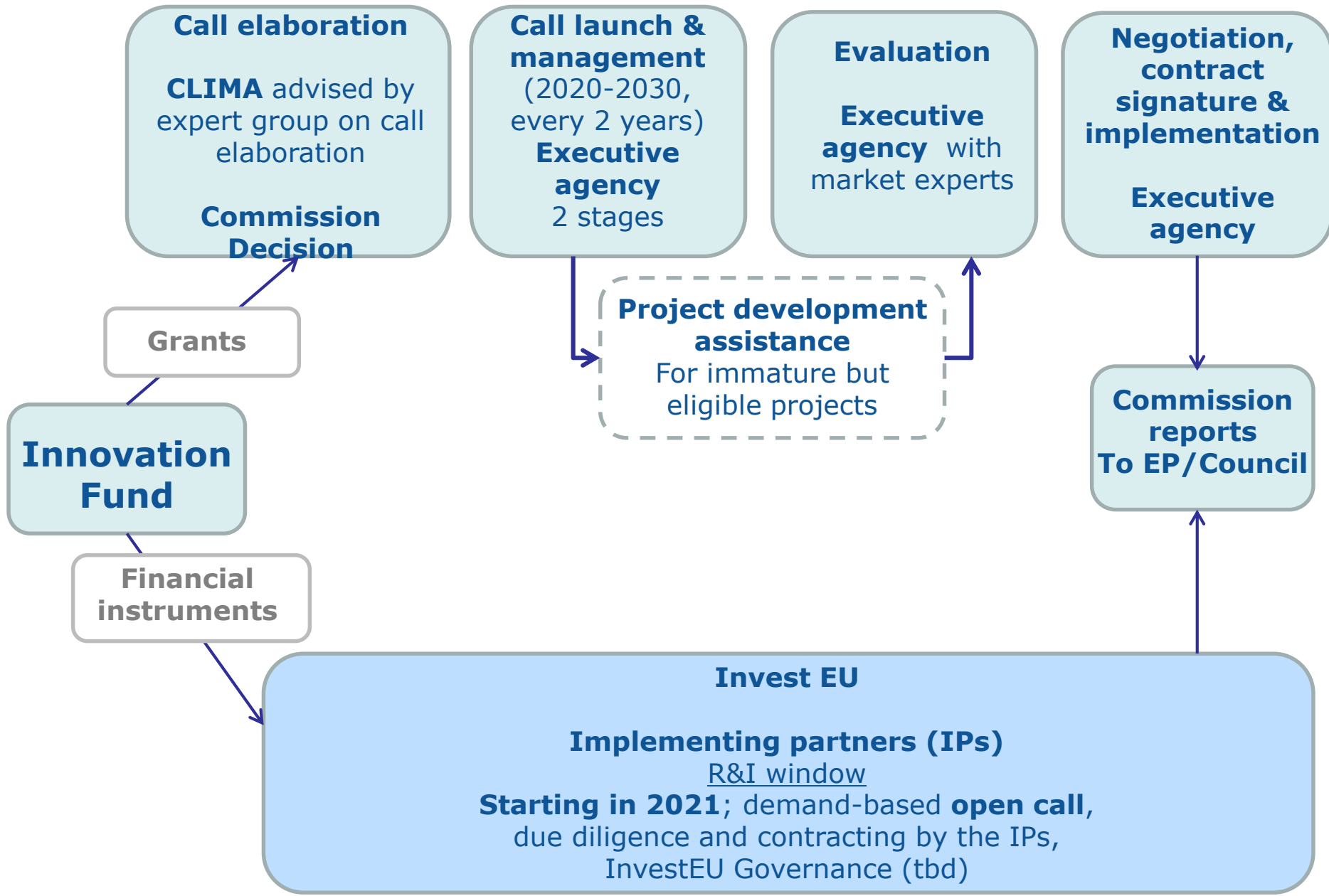
Combination of weighted or unweighted qualitative and quantitative criteria

- **Effectiveness** (innovativeness, relative GHG reduction)
- **Efficiency** (CPUP, absolute GHG emissions reduction/avoidance, project/consortium viability)
- **Scalability** (cross-sector spill-over/cooperation, value chain effects, market size)

Governance structure - options

	1	2
Grants	<p>Mixed governance (EC, EIB, MS)</p> <p>Due diligence by EIB</p>	<p>Streamlined management at the EU level possibly involving an Executive agency</p> <p>Evaluation/contract management by an EU Executive Agency</p>
Financial Instruments	<p>Use of existing Financial instruments' governance (e.g. InnovFin EDP, and InvestEU Fund once established)</p>	

Streamlined governance – option 2



Geographical balance - options

	1	2
For grants	Set via maximum number of projects per Member State (e.g. four projects)	Dynamic management of calls for proposals
For financial instruments	Demand based, no up-front limitations, corrective measures	

Next steps

- *Minutes from the meeting will be circulated and uploaded in the expert group registry*
- *Next meeting of the expert group after summer – discussion on the draft delegated act*
- *Commission adoption of the delegated act by the end of 2018; publication and entry into force after EP/Council non-objection (2 months)*
- *Development of implementing architecture throughout 2019*
- *IF planned launch in 2020*

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