E3G

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PUBLIC CONSULTATIONS ON POST-2020 EU FUNDING

E3G COMMENTS IN THE AREAS OF RESEARCH & INNOVATION AND STRATEGIC INFRASTRUCTURE

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Executive Summary

In May 2018, the European Commission will release a communication on the post-2020 Multiannual Financial Framework (MFF). This will be a great opportunity for the European Union to **prove its leadership in the transition to a low-carbon economy and give a strong signal to private investors**.

The next EU budget will mirror the political priorities for the Union for the next 7 years. To ensure that EU climate and energy commitments will be correctly implemented through the next budget, E3G submitted responses to two public consultations in the areas of:

- Strategic Infrastructure
- Investment, Research & Innovation, SMEs and Single Market

E3G identifies two important issues that should be addressed in the post-2020 EU budget.

1. An efficient and coherent spending of EU funds:

The **EU currently allocates €4 billion every year in fossil fuel investments**, the large majority of which goes to gas infrastructure. However, the EU commits with the G7 to phase out fossil fuels subsidies by 2025. **E3G sees no case for EU budget funding for fossil fuel infrastructure post-2020**. Instead, this money should be used to help close the large financing gap for the EU's clean economy transition and thus help the EU achieve its 2030 policy targets.

2. A stronger focus on **bridging the gap between the climate and innovation community**.

The **EU currently allocated €80 billion over 7 years in R&I investments through Horizon2020**, the **35% of which is reserved for climate-related targets**. The **High-Level Group on maximising impact of EU R&I Programmes** recommended to double this fund. E3G calls the EU **to double the spending on clean innovation** in the next budget, in parallel with the increase on R&I investments.

Public consultation on EU funds in the area of investment, research & innovation, SMEs and single market

Q34: Please specify how the current programmes/funds add value compared to what Member States could achieve at national, regional and or local levels

The recent report by the High-Level Expert Group on Sustainable Finance estimates the gap to deliver the EU's climate and energy policies at **€180bn needed each year**. It is known that public funds are a small part of the investments in the area of R&I – while private investments play the key role. With a **multiplier effect of ca. 1:15** the MFF could mobilise substantial resources from the private sector if well targeted.

Innovation, digitalisation, and decarbonisation will have two opposite consequences on EU society:

1. They will lead to more and better growth and jobs
2. They will transform the communities which are currently highly dependent on older industries

The EU needs to dedicate a particular attention to these areas and provide targeted support. **Cohesion policy funds can be used to support this transition and to bring closer cities and regions to the budget allocations**. Local and regional actors play a key role in the innovation landscape and they are often more ambitious than national governments.

Funding climate action improves effectiveness of other EU level policies as well, such as security, migration and growth policies: The World Economic Forum considers climate change a **top driver of global risks**. The **EPSC considers climate change** as one of the key trends shaping future migration flows to the EU. **EU economic losses resulting from climate-related events** have doubled in the last 10 years and accounted for almost €14 billion in 2015.

Q35: Is there a need to modify or add to the objectives of the programmes/funds in this policy area?

- The European Commission should continue to **look into value chains** – and beyond sectors (both the renewable/clean energy technologies and the full sectoral supply chain). This would also **enhance the competitiveness** of the EU sustainable sectors.
- The EU budget should clearly identify the **industrial decarbonisation challenges and priorities** it seeks to address. Then, it will be important to link them up to research, innovation and deployment spending. On the FP9, which will succeed the current Horizon2020, Europe should set as "Mission" the **achievement of net zero emissions by 2050.**
- European Commission should **analyse the gaps/strengths of the EU innovation/deployment support system** taking as the view point of private investors (including angel investors, family offices, and venture capital/ private

equity funds), and thereby **developing indicators** could look into four categories, comprising:

- Pipeline of deals present in a specific sector, country or region;
- Public sector investment landscape;
- Private investment community; and,
- Framework conditions which will have an impact on the opportunity across it life cycle/innovation journey.

Q40: How could synergies among programs funds be strengthened?

The European Commission needs to **harmonise the evaluation criteria of its different programmes** (prizes, grants, etc.), **as well as strive to harmonise evaluation methodologies across Europe.**

The EU should **align the FP9 with other EU instruments** while assessing whether specific **instruments (such as the Connecting Europe Facility) or regulations (the Clean Energy Package) are "fit for innovation".** When funding R&I, the European Commission should **adopt a business-driven approach**. Europe could be inspired by the ARPA-E approach in the United States – its motto, "if it works, will it matter?" implies that, from the beginning of the process, the final impact on energy use, consumers, and the adoption of the technology, is at the heart of funding decisions. An end-to-end approach throughout the innovation cycle still seems to be missing, especially when it comes to connecting technology and non-technological energy innovation, or encouraging cross-sectoral innovation.

Member States should use their NECPs as investment pipelines and give signals for technology innovation. An explicit link should be created between the national plans and EU budget spending. On the other hand, the EU committed in 2016 to **phase out fossil fuel subsidies by 2025**. Delivering this commitment means **eliminating fossil fuel spending within the next budget period.**

Q42: If you wish to add further information…

Innovation requires more than a 'technology push' from research and development: it also relies on an **effective 'market pull' to transfer innovative technologies to the broader market**. The EU budget should explicitly target early stage deployment as part of wider investment programmes. New grid technologies, for example, could be deployed through Connecting Europe Facility investments – but the instrument is not currently designed to support innovation.

Public consultation on EU funds in the area of strategic infrastructure

Q4: Please specify how the current programmes/funds add value compared to what Member States could achieve at national, regional and or local levels

EU funding can help achieve the EU's 2030 climate and energy policy targets. It already dedicates 20% of spend towards climate-related spend. However, the EU still faces a gap of ca **€180bn needed each year** to deliver the EU's climate and energy policies. With a **multiplier effect of ca. 1:15**, MFF funding could mobilise substantial resources from the private sector if well targeted.

Examples of current EU programmes supporting the 2030 objective:

- The Structural Reform Support Programme (SRSP) strengthens the capacity of an EU country to design and implement reforms.
- The European Investment Advisory Hub improves the quality of investment projects by offering tailored advisory support and development capacity for infrastructure projects.
- Horizon 2020 invests in R&D for the EU's low carbon economy. 35% of current Horizon 2020 spending is reserved for climate-related purposes.
- The Connecting Europe Facility invests in energy infrastructure with cross-border relevance. However, more than 50% of the money has gone to gas infrastructure to date.
- The European Fund for Strategic Infrastructure invests in low carbon investments: at least 40% of EFSI financing is now earmarked to support climate-relevant infrastructure and innovation projects. EFSI signed and approved projects by October 2017 still included >15% in high carbon projects.
- Cohesion Funds: With the introduction of the 20% target, implementation has improved climate action funding.

Q5: Is there a need to modify or add to the objectives of the programmes/funds in this policy area?

1) **Research and innovation spending is the "infrastructure" needed to support sustained EU growth in the clean economy.** Pascal Lamy recommended that EU budget spending on research and innovation should double over the next MFF period. This should at least be matched by a doubling of clean innovation spending.
2) **Re-definition of energy security of supply** - the following dimensions of energy security are currently underfunded:
    - Climate change and the risk posed by extreme weather should have a more prominent role in infrastructure planning and funding.

- Cyber security and protecting digitalized operations also need to be a focus of funding energy security.

3) **Leveraging private finance:** expand the capacity provided by the SSRS and the EIAH to establish 'Sustainable Infrastructure Europe' as recommended by the High-level Expert Group on Sustainable Finance .

4) **The Cohesion Funds** can be used as a tool to close the low carbon gap. This can be done more effectively by aligning funds with National Energy and Climate Plans.

5) **Connecting Europe Facility:** Its effectiveness to support crucial low carbon infrastructure such as electricity interconnection, grid cyber-security, smart grid roll-out, electric charging infrastructure needs to be improved and funding towards fossil fuels phased out.

Q6a: Other obstacles

> The integrated nature of modern energy systems challenges the boundaries of traditional infrastructure definitions. *The Connecting Europe Facility should be broadened to cover a considerably wider range of infrastructure investments*. Priorities include integrated offshore grid projects combining offshore wind generation and interconnection and smart charging infrastructure for electric vehicles.

> Strategic infrastructure will become more decentralized with a growing share of renewable energy and demand side response, but the current focus of strategic infrastructure is on large-scale, cross-boundary projects. One example are smart grids. There is strong added value for EU funding in CEE countries for smart grids: **there is strong appetite to invest, but investment levels are low**. The focus on smart grids in the EU funding structure needs to be re-thought. Only a handful of projects were selected as Projects of Common Interest and enabling more smart grid investment would require a *reform of the PCI and CEF systems. This could be avoided through a separate regime for smart grid support.*

> Demand flexibility and demand reduction can directly replace the need for new infrastructure investments. *Candidate projects for EU funds should be evaluated against demand-side alternatives. Demand-side investments should be eligible for support in all infrastructure funds where they replace the need for new network investments.*

Q8: How could synergies among programs funds be strengthened?

1. **Consistent assumptions regarding decarbonisation:** All EU funds have low carbon objectives, but to a very different extent or scale. Currently there are more ambitious low carbon objectives for some funds, e.g. EFSI that invests in more mature areas of the market. Basic assumptions across all programs should include:

- To stop funding fossil fuel-based infrastructure. As an example, supporting fossil fuels under CEF is not in line with the Cohesion Fund's focus on environmentally friendly energy investments.
- Put energy efficiency & renewable energies first when making assumptions for long term planning.
- Prioritise and align funds in line with scenarios that fully reflect the EU's commitments on greenhouse gas reductions under the Paris Climate Change Agreement out to 2050.

2. It is unclear whether any of the funds is targeting the take-off stage of new technologies. A review of the technologies that are needed to develop a modern, smart and sustainable infrastructure system and whether the funding landscape provides the right support could be useful. As an example, few funds currently target DSO-level roll-out of smart grids. The focus seems to be exclusively on demonstration. Given the need to accelerate investment, it is also important to develop the project pipeline in low carbon sectors, i.e. increase early stage funding (CEF currently only spends 6% of its funds on studies of which two thirds are in the energy area).

About E3G

E3G is an independent climate change think tank operating to accelerate the global transition to a low carbon economy. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. In 2016, E3G was ranked the number one environmental think tank in the UK.

More information is available at www.e3g.org

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