

RENEWABLE ENERGY ACTIONS LEVERAGING INNOVATION TOWARDS ZERO EMISSIONS IN EUROPE

Advice on the Design of Innovation Fund and Adjacent instruments

WP 7 / T 7.5 / D 7.4 Greg Arrowsmith (EUREC) February 2025



Funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or CINEA. Neither the European Union nor CINEA can be held responsible for them.



Table of contents

SUMMARY				
1.	INTRODUCTION	.4		
2.	VIEWS AND ADVICE ON INNOVATION FUND	.5		
	BE 'BANK'-LIKE	.7		
	- SUPPORT AN ENTIRE VALUE CHAIN SIMULTANEOUSLY	.8		
	– PLUG A COST-COMPETITIVENESS GAP	.8		
		.8		
	_PERHAPS EXTEND THE CONNECTING EUROPE FACILITY	.8		
	_UNITE NATIONAL AND EU FUNDING	.9		
	_EVALUATION RULES, SPECIFICALLY THE FINANCIAL MATURITY CRITERION1	12		
	_FORM OF FUNDING1	13		
3.	ANNEX – INTERVIEWEE DETAILS	20		



Summary

The headline finding is that while most interviewees recognised Innovation Fund was a unique instrument, representatives of all but the sectors with least market penetration today felt that either i) the RES ("renewable energy sources") interest in Innovation Fund should be separated off into a **RES sovereignty fund** or ii) at least that a fund for the replication of low-carbon technology with less of a focus on innovation (even much less) should exist alongside an Innovation Fund maintained in its current form.

A RES sovereignty fund would be less preoccupied with GHG avoidance and innovation and more concerned with scaling up EU manufacturing.

It would have key features of the Inflation Reduction Act, especially its form of funding: a premium paid for each unit of output. This is the model of IF's auctions for renewable hydrogen production.

"X-as-a-service" is an important way to align national and European funding and to create the circumstances for a project missing out on European funding to be funded at national level. The combinability of Innovation Fund and national funding is often unclear to bidders and Member States, although some bidders have used both sources for their projects.

The interviewees are from small companies and feel that as such they face particular difficulties, the burden of presenting adequate evidence of their projects' financial maturity chief among them.

The 'Manufacturing' window is popular, and interviewees welcomed the doubling of its budget between 2022 and 2023. The relevant cost calculation was changed in 2023 to remove the netting off of the performance of a counterfactual hypothetical plant, increasing relevant costs, but for manufacturing projects the calculation needs to change again to allow opex to weigh more in the calculation without being cancelled out by revenues.

The Innovation Fund application process is judged satisfactory, although some want a more collaborative application process with official feedback on a proposal under preparation. But interviewees accept that the pain of putting huge effort into an application then losing is eased by the possibility to resubmit, if one can accept a one-year delay to the start to one's project.

It is seen as an important tool to set up industries to benefit from the Net Zero Industry Act. They look to NZIA to create space in the market for replications of de-risked Innovation Fund projects or for the products coming off Innovation Fund-ed production lines.



1. Introduction

The source material for this report was obtained from one-to-one video call interviews of 30 mins to 1 hour with people having the profiles indicated in the annex.

A good spread across renewable energy technologies was obtained.

The interviews were facilitated by the relevant European industry associations. Companies that had tried but failed to win an Innovation Fund award were found in some cases. Many interviewees were interested in (or had applied under) the Manufacturing window, a few in "Pilots" and just one in the general call, fairly typical of where RES's recent success in Innovation Fund has been found.

The report focuses on Innovation Fund with adjacent instruments considered to the extent they were brought up by interviewees as offering an interesting point of comparison.



2. "Big picture", high-level views on Innovation Fund

It's unique...

Our interviewees agree: the Innovation Fund is "unique". Many would say it's an "indispensable" part of the EU funding landscape, with "nothing equivalent at national level."

It's unique for its size and its capacity to supply substantial "non-dilutive funding to large scale industrial projects." Some countries can supply large amounts of bespoke State aid, too, but the timescales for those schemes to be approved by the European Commission are longer than timescales for Innovation Fund proposals to be evaluated and grant agreements with the winners signed.

The fact it is a European instrument is appreciated: "The international aspect allows one to look across the EU for the best sites/opportunities/developers to work on or with."

The breadth of the instrument and the fact that it puts different low-carbon technologies in competition with each other is considered a plus by some, but some RES associations have gone on record (letter in May 2024) calling for greater ring-fencing within the overall IF budget, which would limit competition between renewables and other decarbonisation technologies. Soft compartmentalisation has happened with the overall budget of a call split between an increasing number of windows: from "small" and "large" projects in the first call in 2020 to "small", "medium" and "large" ones today as well as "pilots" and "manufacturing", where <u>9 out of 13 IF23 RES projects</u> were funded. To this should be added the allocation to the European Hydrogen Bank auctions and the endowment for a special window for the manufacturing, asked one interviewee, since permanent magnets are similarly used in a wide range of projects; or one for ocean projects, asked another)

...but misnamed



The interviewees had different perceptions of what Innovation Fund does or should do. Some think it is about innovation and should remain so, often also saying instruments alongside Innovation Fund that could replicate the technology beyond its demonstration in Innovation Fund should be boosted. Others think Innovation Fund isn't and never really has been about innovation and should be renamed.

Innovation Fund offers grants "for commercial projects, incrementally innovative projects having more chances [over highly innovative ones]" said a representative of the ocean energy sector. "It's misnamed," said an interviewee from a different sector (photovoltaics), "It's in effect a decarbonisation fund, and that is not well understood." Thinking *of that sector specifically*, he added that it's better that the name should mislead than the IF should insist on innovation, "because in Europe there is no technology leadership anymore." Another from the sector agreed that "there is no more time for innovation only."¹

This alternative understanding of Innovation Fund stems from its evaluation criteria. "We found the name 'Innovation Fund' misleading as the projects need such high project maturity and concrete details that it would be difficult for a project on true research, developments, and the testing of new innovations to use it."

Most felt that either i) the RES interest in Innovation Fund should be separated off into a **RES sovereignty fund** or ii) at least that a fund for the replication of low-carbon technology with less of a focus on innovation (even much less) should exist alongside an Innovation Fund maintained in its current form. (Note that the least deployed renewable energy technologies, when interviewed, rejected these ideas – they felt they would remain eligible for today's Innovation Fund for at least a generation of their technology beyond the one they would deploy with a grant today, thus have no interest in Innovation Fund's purpose or resources being diluted).

How should the RES sovereignty Fund look?

Many renewable energy projects are funded under the 'Manufacturing' window (which brings its own challenges, see 'Invisible opex' below). One said that the European Commission should "accept that a factory making turbines is green – not get hung up

¹ <u>Solar Power Europe wrote in Feb 2024</u>: "European solar R&D is strong but innovation-based criteria alone will not suffice in differentiating European-produced solar on the international market." – the Solar Manufacturing Facility it proposes as a complement or alternative to Innovation Fund thinks consideration of adherence to ESG criteria, local value addition and high-quality manufacturing could be better differentiators.



on forcing from it a calculation of absolute GHG- or relative GHG-avoidance – and focus primarily on its contribution to resilience [Ed note: i.e. ability to diversify supply chains, particularly keep them in the EU as much as possible]" Another from the same sector added that automatisation and the embrace of standards in manufacturing should be credited, too.

Representatives of two sectors wanted to limit the importance of 'degree of innovation' in this window (currently weighted '2'): "It weighs too much on clean manufacturing."

These changes may mean changing Innovation Fund's legal base, but with a revision of the Emissions Trading Scheme coming in 2026 and a "Competitiveness Fund" coming², maybe a change in the legal basis is on the cards. A notable attempt at a substantial change to Innovation Fund's scope was made in 2022 when the European Parliament's Environment Committee voted to replace it with an 'Climate Investment Fund' for "scaling up techniques, processes and technologies that may no longer be considered innovative" (in that instance the Committee's move was defeated later in the legislative process)³.

Be 'Bank'-like

By 'Bank', understand European Hydrogen Bank and more specifically the model of 'IF auctions for renewable hydrogen production'. Under this model, a payment is offered for every unit of green hydrogen that a winning bidder produces at the level that they bid. It is a "production premium" similar to those famously offered to a swathe of climate friendly technologies in the US under the Inflation Reduction Act.

There is support for the 'Bank' model from the solar PV sector. Solar Power Europe bases its proposal for a <u>Solar Manufacturing Facility</u> on a combination of it with features from an Indian incentive scheme for manufacturing. "With an auction offering even only $1 \in /$ Watt-peak for every produced module in EU, manufacturing can be meaningfully supported," said one producer. An alternative put forward was a "European agency"

² Both referred to in the <u>Clean Industrial Deal</u> Communication

³ Separately, the Budget committee of the European Parliament is seeking to break the link between the origin of the money for Innovation Fund and the management of that money (possibly also therefore the criteria governing the things it can be spent on). Its <u>draft report on a revamped long-term budget for the Union in a changing world (2024/2051(INI))</u> "Reiterates its long-standing position that all EU-level spending should be brought within the purview of the budgetary authority; calls, therefore, for the full budgetisation of (partially) off-budget instruments such as the Social Climate Fund, the Innovation Fund and the Modernisation Fund, or their successors;"



that would "organise or guarantee" the offtake of components like PV panels from a "production-scale pilot line".

A full-fat "IRA" remains the gold standard for a stakeholder-pleasing instrument for

- its open-ended commitment to uniformly fund any manufacturing project per unit output that meets relatively simple conditions (conditions which may, incidentally, prevent the IRA from funding innovative versions of technology: "It is reasonable to support TOPCON just based on the real production," said a PV representative – this being a well-known technology);
- ii) the size of the premium, and (at least for PV) for the fact that capex subsidies may be obtained in addition to the premium.
- iii) its strong political backing. At least under the Biden administration, point "i)" meant that projects could progress quickly based on a high likelihood that they would qualify for and receive the premium payments. The same political importance of the IRA allowed factory builders to raise finance off their boosted expected future revenues.

Support an entire value chain simultaneously

In PV, it is not enough to support module production; in parallel to the industry upstream of the module including cells, wafers, ingots (and downstream to inverters) needs support too.

Plug a cost-competitiveness gap

The RES sovereignty fund would plug the cost competitiveness gap between Chinesemade and EU-made tech. Measures exist already to achieve the levelling of prices in a national market between domestic-made products and imports, notably import duties. This is a stick approach, as opposed to the fund's proposed "carrot". Country-specific import duties for PV were not popular with one interviewee because of the possibility for circumvention.

Have a large budget

...in recognition of the fact that the public incentives must be competitive with what is available in the US and China.

Perhaps extend the Connecting Europe Facility



One interviewee said that alongside an Innovation Fund that operates much like today's, "we need a Connecting Europe Facility for Energy (CEF-E) with more budget to do the scale-up of no-longer-innovative technologies." She felt the right ratio was twice as much money available under CEF-E as available for innovative technology in energy in the present Innovation Fund.

Unite national and EU funding

An interviewee pleaded for a "simple, fast, and large-scale, single funding instrument that can combine both EU and national funding." Only then will the EU have something on a par with the IRA and similarly convincing in the eyes of financiers, he said. Innovation Fund is already taking steps in this direction with "X-as-a-service"⁴ whereby Member States delegate to the European Commission the selection of projects that will be funded with national money. A further opportunity to meld EU and national funding and strategies could come from Member States' auctioning revenues from the Emissions Trading Scheme. The EU institutions have <u>implied that they accept</u> that to help the Net Zero Industry Act reach its aims, Member States should "mobilise national resources" namely "25 % of ETS revenues that [each collects] annually from ETS auctions." When Innovation Fund's allocation of ETS allowances is taken together with 25% of total auctioning revenues, an amount of the order of ten billion EUR annual funding is created.

Improvements to make to Innovation Fund, also that could be built into a future RES sovereignty fund

- **Simplify**: The IRA is the gold standard for a simple, resilience-oriented cleantech industry support instrument, but its open-ended nature is expensive.
- Focus more on resilience by taking a close look, in evaluations, at the extent of non-EU penetration in the project (in the technology used and the financial backers): Interviewees generally felt the evaluation criteria could offer more to projects with high EU technology content, one remarking that this would help build up their European supply chain. One interviewee would have

 $^{^{4}}$ X = grants or auctions. The generalisation of the "as-a-service" offer to Member States looking to allocate national funds to any EU financial instrument has been proposed by Climate Strategy (Ch 6, <u>'Filling the EU Climate Investment Gap more efficiently</u>, 2024)



liked his project's low <u>Scope 3</u> emissions (thanks to procuring from Europe) taken into account and another two said it would help two PV technologies where Europe has an edge: silicon heterojunction technology and epiwafer technology (both inherently less energy-intensive to manufacture than today's state of the art equivalent cells or wafers). Another highlighted her company's collaboration with a local research centre in the design of its installation, allowing her to claim this was sustaining Europe's dominance in this technology space.

- CRMs: Two interviewees from different sectors hoped that Innovation Fund or a future separate instrument could credit Critical Raw Material independence or provision. "Innovation Fund allows us to play our GHG card," said one from the geothermal industry echoing comments from EGEC⁵, "but not our boost to the supply within the EU of a critical raw material." The other thought that avoidance of (or provision of) CRMs could be evaluated quantitatively in IF applications without too much difficulty, and used in ranking proposals.
- Marry IF and MS money: Opinions differed. Two felt, for different reasons, that the rules on cumulating IF with national money were not clear. In Italy, the government now forbids projects from receiving EU money from two separate programmes (for example Innovation Fund and regional funding), at least till 2022 it had allowed this. In Austria, the prevailing belief ("yet to be officially confirmed") is that overall funding intensities laid down in the Energy and Environment Aid Guidelines calculated by summing state AND European-level aid must be respected, meaning no more than 45% of the interviewee's company's project's eligible costs may be covered. An interviewee talked of how his only hope of national (Italian) funding was for his company to make its own approach to the government as there was no "open call". He put the scarcity of national money down to his country's "large debt", meaning its spending was under close scrutiny by the European Commission.

The combination with <u>Temporary Crisis and Transition Framework</u> aid seems particularly uneven across Europe. Using TCTF for wind in Poland could work (and in other countries does work, but not Germany); for ocean in France, it does not; for PV, it was not felt to work anywhere; in Italy, TCTF is available "to only 5-6 NZIA technologies." One interviewee in geothermal was frustrated that his TCTF discussions with Germany were long and he felt his was not the only company suffering from the slow pace: "We've been talking since Oct 2023, but

⁵ <u>5 Dec Euro-funding webinar</u>. At the same event, EGEC pointed to benefits beyond GHG avoidance and CRM resilience that could be given credit systematically in project evaluations: dispatchability, delivery of negative emission, variety of forms of energy output.



with no result. The theoretical availability of money is not enough; it has to be accessible on useful timescales.'

On the other hand, many interviewees could point to how they had **successfully combined** different sources of public funding, or expressed confidence in their government's readiness to help them (in one sector, many agreed that were they not on their government's radar, they may not be in business today): Italy for PV, France and Portugal for ocean, Sweden for BECCS.

Some reflected on how Horizon Europe had helped them. "Horizon is a good stepping stone to Innovation Fund, getting you a technology roadmap," said a speaker from PV manufacturing. "The ocean Horizon Europe and H2020 Green Deal calls were about 'high innovation'. Innovation Fund can meet the funding needs of projects [as they move to higher TRL]," said another.

Manufacturing's invisible opex

PV companies raised this problem: relevant costs for projects in the 'Manufacturing' window, once calculated, barely registered these projects' far greater opex (in absolute terms and relative to capex) than projects in the other windows, yet it is these costs that dominate in manufacturing. They net off against the income from selling the finished product, with greater opex meaning correspondingly greater sales but little variation in the net result of the two. This severely limits the size of the IF grant that such projects may apply for. The delta is positive because the market price of modules is lower even than the marginal cost they can be made for in the EU, but this brings another problem: it is illegal under EU competition law to sell lower than the cost of production. Thus companies need a form of aid that can subsidise, to a decent level, production costs, in a legal way.

However, one PV voice dissented: covering the initial capex of his plant was "the hurdle", which the relevant cost calculation did take good account of.

An interviewee interested in a project in CCU noted that there, too, operating costs would be high (if the electricity were procured rather than generated onsite from wind or PV). For that project, she "would like to see more opex funded."

Small companies at a disadvantage



Small companies were widely felt to be disadvantaged by Innovation Fund's rules, for the reasons below, yet for such companies, winning an Innovation Fund award is generally considered a must while for large companies the award is "nice to have".

Evaluation rules, specifically the financial maturity criterion

In one sector, it was claimed, "The winners have been large corporates that didn't need the money. Smaller companies that tried failed because they couldn't prove enough private sector financing. So Innovation Fund misses the goal of helping new entrants emerge." The perception that big players are too successful in Innovation Fund compared to smaller companies was widely felt.

Smaller companies can have a narrow window for their peak chance at Innovation Fund. One self-described scale-up said, "There is a small window [when you can score well on financial maturity]. It is when you've got your finance plan set up but have not yet made the final investment decision. We can't wait for a second go [and will have to proceed without a grant]. But if you are very early stage maybe you wait, taking the risk that your competitors overtake you." Another from a different sector felt the narrow window was rather their customers' impatience and that Innovation Fund's timescales would not fit into it if they were trying to use it to develop a new product: "If [our grant] had been for a new innovation/development project and not for increasing scale as part of clean tech manufacturing, I doubt that any of our customers would have waited an extra year for something to proceed."

Interviewees disagreed on the extent to which a financing package needed to be locked down at the time of application to win an IF grant. One said a "secured bank loan" was needed, but another that agreements conditional on winning the IF award were convincing enough, such as PPAs.

That the financial maturity criterion was the hardest to score well in, and that scores here affected overall ranking, was widely acknowledged. The Commission itself determined financial maturity to be the "main failure criterion" in IF23⁶. "Failing to provide a letter from our shareholder lost us half a point," said one. "And the evaluators seemed to have a hard time understanding that as a municipal utilities company our

⁶ Feedback slideshow, 14 Nov 2024 (slide 20 'Takeaways from the IF23 call')



goal was not to generate a high return. They understood it in the end. We explained our business model very carefully in our resubmission."

But is the tough process a fact of life or something to fix? Small companies find 'Financial maturity' hard ("too strict," said one). The evaluators "want to see a strong equity partner, which is hard for small companies." This might affect all the small companies of a sector: "The IF application process works for sectors not exposed to international competition, but in a sector where market prices are 50% at least below real production costs, there is very little private money available." – the implication is that here financial maturity rules should be relaxed and public budgets take more risk.

But another thought being an established project at the time of application is a necessarily tough filter: "It's right to have a feasibility study and business plan in place before starting an application. The daunting process of writing the proposal helped us structure the project."

Form of funding

"I don't think the conditions on the grant (i.e. possibly having to pay some of it back enables you to get cheaper financing. This exposes smaller companies especially," said one. Not so fast, said another: "You raise finance with the security of the grant."

Satisfaction with 'Manufacturing window'

The arrival of the clean technology manufacturing window in 2022 with 700 M EUR was a "game-changer", said a representative of one major renewable energy sector. This was increased to 1.4 bn of IF23, but in IF24, the budget fell back to 700 M EUR. Many felt this would disadvantage renewables, although, as one acknowledged, this cut comes with the hiving off of battery manufacturing to its specific window. IF23 results show that 'Manufacturing of energy storage technology' claimed 821 M of a total 1.622 bn EUR awarded for manufacturing, so the cut is likely to be balanced out by substantially less competition for the budget that remains.

Among the interviewees, ocean representatives spoke up for the "Pilots" window, which is unsurprising. Neglecting manufacturing of RES, ocean was the RES sector where the highest proportion of awarded projects were was in the 'Pilots' window (<u>4 of 6 in IF23</u>). At the <u>Euro-funding event 5 Dec 2024</u>, EGEC noted geothermal projects often compete in the 'General' windows of small, medium and large projects where in



IF23 <u>one RES project was selected for every six</u> in energy intensive industry. This ratio was "imbalanced".

Some interviewees felt too much goes to hydrogen.

EIB's could help further

Views on the usefulness of the EIB's guidance in proposal preparation were generally positive (with one exception). One interviewee had used Innovation Fund PDA and another ELENA to support the preparation of their respective proposals.

Several regretted that the EIB often couldn't help them with a financial product, its proposal preparation mission being a separate activity to its core lending business: "A financial package from the EIB complementing the IF would be better than PDA" but often it could offer "no suitable product". "It would be good if the EIB could give us advice on other funding sources." "The EIB might have offered us loan, but not in time for the submission deadline. They take a long time to negotiate."

Effort to apply

Satisfied with the resubmission policy

While success rates are low, because calls hardly change in their scope from year to year it is possible to resubmit a project, providing a similar one has not been selected in the meantime (if that happened, the second one would face a greater challenge to prove it was innovative).

Interviewees revealed a tendency to: i) not apply until they felt they were ready (sometimes because they expect the rules will adjust to give more room their project) ii) re-apply if they failed. They appreciated that the European Commission asked project proposers to flag any resubmissions they may make, so that the evaluation team of the later proposal can refer to the score and comments of an earlier team's evaluation.

The ability to learn from Evaluation Summary Reports (their quality was praised), the ability to re-submit and the ease of resubmission are compelling reasons to keep the evaluation single-stage, said one. Interviewees felt the application process was already long, even "so long that strategies can diverge while waiting for result and for grant



agreement negotiation to be completed," said one. The cascade-system of evaluation was resented by an interviewee who was challenging a "clear error" in the evaluation of his project⁷. The cascade evaluation means he has no information on the quality of his proposal on criteria further down the cascade. If it would fail on those, he would be wasting both his and the Commission's time.

Volume of work is heavy but worth it

Interviewees' applications typically weighed in at 600 pages, needed 3-4 staff working full time on them for 3-4 months, or more staff for less time. External consultants were frequently used, including for resubmissions. This was felt to be very considerable effort, but definitely worth the potential reward. (Recall that most interviewees were IF winners.)

'Small-scale projects' was not the window that interviewees had applied under. This may be because, as one put it "the effort / reward ratio for applications is worse and applications should be smaller." The potentially greater difficulty within companies of justifying using internal resources on small-scale proposal applications might explain why these were of worse quality than proposals in the other windows in IF23. LIFE (with a lighter application process) may be the more appropriate programme for small projects, suggested two interviewees from different sectors, one suggesting any project <5 M EUR should try there first.

One commented that big companies are at an advantage because of their deeper pockets: "Large corporates with multiple large departments and balance sheets to support these costs are in a privileged position which means an unlevel playing field [via-à-vis smaller companies]."

Some wanted a more collaborative application process, with feedback on an emerging proposal provided by the Commission or its agency, but understood that the remoteness built into evaluations (and in many parts of the EU's other major innovation funding instrument, Horizon Europe) was needed for the sake of irreproachable impartiality. In the approaches one interviewee was making to the manager of his country's TCTF mechanism, he felt it "intensive, but there are intermediate steps that make it user-friendly: there's dialogue, no hard single deadline and a collaborative

⁷ Solar Power Europe also spoke against the cascade system of evaluation at <u>Euro-funding's public online event 5</u> <u>Dec</u>.



spirit." Another's view was both the EU and the more 'hands-on' national scheme had their advantages: "The <u>France 2030</u> evaluation schema was totally different. The template was looser. They still wanted to know our technology had good perspectives but GHG avoidance was far less important than in Innovation Fund. There was a review of the proposal. At first, I preferred the France 2030 process because it allowed us to understand what the funders want through dialogue. But with Innovation Fund and Horizon Europe, we need to be more 'straight to the point' and are forced to pay close attention to those competitions' criteria."

Praise for CINEA's flexibility during project implementation

Once it has awarded a project, the Commission (specifically its agency) becomes more willing to accompany that project, and this was appreciated (one talking of the assistance given by Innovation Fund project officers and financial officers in CINEA being the "gold standard" that other EU programmes should follow). Three mentioned CINEA's willingness to accommodate adjustments to project timeline, although CINEA prefers to amend grant agreements once at most.

Annual knowledge sharing sessions with similar projects are an opportunity to share experience with peers, said one, but also because they are set up by CINEA and attended by CINEA "we can ask the European Commission's view on how to expedite permitting decisions that may be delaying us, for instance, or overcome public opposition. They try to help."

Satisfaction with ability to declare higher relevant costs

Welcome changes have been made to the calculation of relevant costs to make it simpler, and which have the effect of making relevant costs greater. The most notable was made between the 2022 calls and IF23 when the Commission advised that the default model for calculating them should be to assume no counterfactual hypothetical conventional plant. This eliminated difficult questions around the choice of such a plant and reduced to zero the amounts that would otherwise have been netted off from the demo plant's costs. "In the 2022 calls, the projects in manufacturing were ones with a negative business case (in general in all sectors) because ones with a positive case had minimal relevant costs and therefore minimal opportunity for funding. Now even money-saving projects have high relevant costs."

Some interviewees used all their relevant cost headroom in the award they requested from Innovation Fund, others not. One with a very costly project chose to request substantially less than his relevant cost headroom ("we thought we'd be asking too much in absolute terms") relying on national public funding for his further requirements.



Are Innovation Fund winners put at too much of an advantage?

A project may get an award of hundreds of millions while a similar one scoring a fraction of a point lower would have to content itself with the STEP Seal. Is that fair?

It was a tolerable situation, felt the interviewees (recall, they were mainly from winning projects). One saw space in Horizon Europe for a project similar to hers awarded in Innovation Fund, allowing her competitors another chance. The situation couldn't arise in Innovation Fund's open-ended cousin the IRA, observed one, which funds all-comers meeting the criteria.

Some felt **knowledge sharing rules** could go some way to closing the gap between a lucky winner and its competitor. Data on the project, if of high enough quality, could enable a competitor not to repeat mistakes made by the awardee and allow them to recover some lost ground. Two interviewees in different sectors agreed ("The most important thing is to be first. We need competitors," said one); but three disagreed (again each from different sectors). They said their awards weren't big enough to offset the damage to their competitive position if they had to do detailed knowledge sharing. An interviewee with a manufacturer profile feared his IP would leak outside Europe.

The STEP seal

A winner regretted that he was aware of no announcement that a 'STEP Seal certificate' ("Strategic Technology for Europe Platform Seal") for his project was available for him to download. He would use it to demonstrate that his project is of high quality: "Such certificates play well in China and the Middle East, but [Western] banks don't care about it." One countered that they can work with European policymakers, too: "The 'stamp'-collecting exercise is important and I will show my collection to policymakers in my country to facilitate the scale-up of my project."

Others are unconvinced by the usefulness of a certificate, either because it was tokenistic or because "Funding programmes have not been designed with the congruence to enable them to accommodate each other's excess projects." One interviewee applied for the "strategic project" seal under the Critical Raw Materials Act and is nonplussed at the delays in announcing winners. Holding that seal is not the



firing of a silver bullet: in Germany, the decision of whether it brings permitting privileges lies with local authorities individually.

The mere fact of winning the grant is at least as powerful as a 'seal' in awakening the interest of other investors. "[The IF grant] as a validation of the EU's support for us helped us with banks and lenders. The grant led to media coverage, notably when European Commission President Ursula von der Leyen visited us."

Important flanking instrument: the Net Zero Industry Act

Interviewees considered NZIA important not as a funding instrument but as a set of policies for providing market pull for technologies that Innovation Fund might develop. For renewables, these would be for example for the auctions for public support using non-price criteria under NZIA Art 26.

An appetite exists for using both NZIA and Innovation Fund more robustly to promote made-Europe technology.

Speakers from the European industry associations representing heat pumps and geothermal at <u>"Webinar on the new Innovation Fund Call 2024" organised by Euro-funding on 5 Dec 2024</u> agreed with the proposition, believing their value chains would do well under criteria that the depths of their values chains within the EU, and Solar Power Europe believing it would stimulate re-shoring of the PV manufacturing industry.

Interviewees appreciated the view that national instruments took on local content:

- One referred to a scheme for encouraging energy efficiency in industry: "Once an industrial site has made sufficient steps to reduce its demand, can receive a subsidy for putting PV on its roof up to a level it can consume on-site. Those modules must be made-in-EU and the premium is big enough to bridge the cost gap with China-made modules." The scheme effectively started to operate in Q4 2024, he said, though formally the measure had been in place since 1 Jan 2024.
- The "France 2030" scheme looks at the local content of projects.

One PV manufacturer only applied for Innovation Fund because he was counting on "NZIA to create a market niche for made-in-EU modules." He urged politicians "not to be shy on the definition of resilience." Another said, "Independent Power Producers and utilities might be owned by private equity or pension funds and deliver a high return on investment but not one aligned with the "bigger picture" – the delivery of benefits to



society. So we need activism from them and other shareholders to swing corporate strategy to accept a lower return by for example investing in a solar power park with good resilience features. The lower return could be compensated by a tax incentive or ... not. If the NZIA is properly implemented, it might force their hand."

For now, investors don't believe in NZIA, he complained. "It is taking a long time for its effects to be felt," said two.

"28th legal regime"

The <u>European Commission described this</u> as "single, harmonised set of EU-wide rules" for companies to use "wherever they invest and operate in the Single Market." One interviewee (unprompted) spoke up for this idea, hoping the standardised rules would help him attract more private risk capital. The proposal is a welcome "shift in mindset."



3. Annex – interviewee details

All interviews held Nov 2024 to Jan 2025

date	sector	profile	winner / non- winner / n/a
4 Nov	PV	association	n/a
7 Nov	PV	association	n/a
7 Nov	solar thermal	industry	winner
15 Nov	wind	association	n/a
15 Nov and 22 Nov	PV	industry	non-winner
19 Nov	biomass	association	n/a
29 Nov	district heating	industry	winner
19 Dec	geothermal	industry	non-winner
19 Dec	geothermal	industry	non-winner
7 Jan	PV	Industry	winner
8 Jan	PV	consultant	n/a
9 Jan	ocean	industry	winner
10 Jan	ocean	industry	winner
17 Jan	biomass	industry	winner
29 Jan	wind	industry	winner