LIGHTHOUSE ENERGY TRANSITION SERIES

Summary Outcome Report

A green Horizon for CEE? How to improve the framework for energy innovation funding

INTRODUCTION:

This event took place Monday 9 March just as the COVID 19 pandemic was coming into focus across Europe. Understandably there were several late cancellations that affected the makeup of the workshop, but nonetheless a critical mass of expert speakers and participants from the energy sector, European Commission, national government, and academia, representing Visegrad 4 (V4) + Romania (RO), came together to address challenges Central and Eastern Europe (CEE)[1] is facing with R&D investment and innovation. Following Chatham House rule, this summary outcome report captures the important takeaways from the speaker interventions and informal dialogue that followed.[2]

RECOMMENDATIONS:

- Encourage invesment in riskier innovative projects;
- Develop better interconnectivity within academia and between universities/research institutes and businesses;
- Electrification of transport and synthetic natural gas are the low carbon tchnologies that should be jointly prioritized for regional innovation;
- Strengthen performance criteria for EU funds to enusure projects are following climate and energy priorities;
- New financial framework delegating some oversight of national Cohesion envelopes to Brussels technocrats;
- DG REFORM (formerly Structural Reform Support Programme) services should be requested by national authorities to support reforms, policy implementation and economic governance.

CHALLENGES:

- Clean tech start-ups and SMEs cannot depend on EU funds and EIB loans. Securing EU funding is complex process that is slow, cumbersome and unpredictable. National authorities lack financial expertise, transparency and administrative capacities. Even EIB loans can take longer than expected;
- Overwhelmingly risk averse investment culture. Individuals tend to save and play it safe while governments spend on conventional projects with traditional establishment companies;
- Scientific/technical expertise continues to be lured away to Western European based entities;
- Governments are not actively supporting low carbon R&D and related networking among universities;
- European Commission focuses on dispersement of funds rather than added value but this is a very sensitive area for member states;
- EU budget is already behind schedule compared to 2013 before COVID-19 which puts funding for new green programmes beginning in 2021 at risk;
- Governments are waiting to the last minute to absorb significant volumes (typically more than 50%) of Cohesion funds without a coordinated or strategic approach.

FURTHER CONTEXT ON:

EU funds and investment

- Between structural funds, quite sizable EU Emission Trading Scheme (i.e. Modernisation Fund) and incoming Just Transition Mechanism (JTM) the region has ample resources but the challenge is systemic since these funds have been allocated to procurment and continuation of old projects rather than initiating new ones;
- EU funds need to be managed by financial professionals as instruments to leverage private investment;
- First priority of JTM is reskilling of workers then R&D technology towards circular economy or brownfield investment but projects are being signed and funds will be absorbed using the +3 rule.

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1 CEE is a commonly used but oversimplified categorisation of a group of countries with several shared characteristics that are nonetheless quite different and nuanced in other areas. Owing to the participant composition, this summary output is referring specifically to Visegrad 4 countries plus Romania.

2 Given the unusual set of circumstances, we hope to solicit feedback from those that were unable to attend, either incorporating it into second version or laying the groundwork to reconvene the full spectrum of stakeholders in the fall.

- Majority of V4 Cohesion funds from the closing budgetary period remain unspent (Hungary big exception) but projects are being signed and there will be a spike over the +3. This practice means that excess money is not spent strategically and does not follow Green Deal principles;
- Small and medium enterprises (SMEs) secure small investments but not the large sums required for scaling up. Slovak Investment Holding (SIH) has been notably successful in this regards, building a financing portfolio from EUR 100 million to leverage 2-3 billion investment today.
- American VCs and angel investors see opportunities in the region circumventing emerging political and trade obstacles.

Academia

- More robust business–university partnerships are needed so that R&D is responsive to business needs and ideas can be commercialised and deployed;
- At the same time universities need public funding for basic R&D purposes beyond building prototypes for industry to presrve their core function of educating and training students;
- Universities are suffering from brain drain with qualified professors and researchers finding higher pay and better opportunities in Western EU countries.

Technology

- Finding a common technology to prioritize in CEE is a challenge since for example LNG and hydro are good for Poland and Slovakia but not Hungary and even for energy storage Hungary wants to develop utility scale storage for nuclear to balance growing solar capacities. For now there is a V4 network minus Slovakia on low heat while synthetic gas and e-transport would be logical to follow;
- Energy storage has huge potential particularly in battery system management and integration;
- Massive geothermal potential in Hungary and to a lesser degree Slovakia but no academic cooperation and Hungarian universities banned from applying for EEA/Norway grants;
- GA Drilling can apply tehcnology commonly associated with oil and gas to goethermal;
- Czechia GDP is more dependent on the automotive sector than any country in the EU which translates only modestly to improving national innovation because it is largely under foreign ownership.