POSITION PAPER

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# Improving the EU R&I funding landscape: Addressing current challenges

To regain the EU's competitiveness, the *Strategic Agenda 2024-2029* stresses the need to urgently address the EU's innovation and investment gaps by mobilising public and private funding, particularly in sensitive and strategic sectors and key technologies of the future, including biotechnologies, net-zero technologies, chemicals, and advanced materials. It is argued that the EU does not lack innovative ideas, but when it comes to scale-up, deployment, and commercialisation, the *Future of European Competitiveness report* by Draghi notes that the EU is seriously challenged by the fragmented and inefficient public R&I support. This, combined with other regions offering attractive and predictable rules, results in EU companies expanding and seeking finance outside the EU.

Following The *Political Guidelines for the next European Commission 2024-2029*, the Clean Industrial Deal and the planned new European Competitiveness Fund stresses the need to *"offer strong support to innovative industry for sustainable investment in the next MFF and a one-stop-shop simplified access to EU fundings"*. In addition, the *Competitiveness Compass for the EU* states that the Commission will set out how targeted and simplified aid can promote clean tech and circularity, including for energy intensive industries. Europe will require investments of more than 700 billion euros a year[1] by 2030 to combat climate change while increasing competitiveness as a region.

As noted in the Clean Industrial Deal, *"industry requires immediate access to capital"* and the Commission expressed its commitment to *"strengthen EU-level funding"*. This aligns closely with the urgent need for reform in EU R&I funding mechanisms outlined in this paper. It describes specific elements to enable a more attractive and modernized R&I funding landscape and how new funding and financing mechanisms should look like.

[1] The Draghi report assessment, page 20

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# Current challenges

*The Political Guidelines for the next European Commission 2024-2029* note that "this will be an investment Commission." In order to make co-investment the trigger for making Europe indeed the hotbed for chemical innovation, there is an urgent need to revamp the EU R&I funding mechanism through:

- **A more supportive and predictable policy framework** for scaling up and de-risking investments in EU's manufacturing capacity for low-carbon technologies and products mentioned in the Strategic Agenda 2024-2029. This is particularly important at higher Technology Readiness Levels (TRL), where market risks increase, and adequate incentives and collaboration are needed to navigate regulatory transitions. Compared to other regions, there are limited or oversubscribed schemes in Europe. The EU Innovation Fund's 2023 call for proposals for example highlights the significant gap between demand (€ 24,6 billion) and available funding (€ 4 billion)[2].

- **A set of innovation de-risking tools** to accelerate market pilots for commercialization. Currently, the innovation process faces significant challenges at critical stages (e.g., TRL 3-5, 5-8, 8-9). Low TRL level projects typically bare risks in the area of technological feasibility and regulatory compliance that could be mitigated by public grants, subsidies and regulatory sandboxing. Higher TRL level projects are facing significant scale-up challenges and risks in market acceptance. This critical innovation phase requires much higher volumes of funding and also tools allowing to share or de-risk further investment in the project. Companies are not only challenged by navigating among different needed financing tools, they are also confronted with complex and lack of alignment in funding schemes across Europe and the regions.

- Based on the above, adequate **absorbing measures at different innovation phases**. Tools may vary from grants, subsidies, and loans to enable strategic alliances and partnerships.

- Introduce **stronger support for high-risk but potentially high-reward innovation initiatives,** e.g. for cooperation between large corporations and startups in order to support the process of incubation and acceleration of innovative ideas from the very beginning to commercialisation stage.

- Providing **financial support for the creation and development of corporate innovation ecosystems** dedicated to cooperation with startups at various stages of maturity.

- **Embedding, in the next MFF 2027-2034, a dedicated fund for those technologies and products manufacturing sectors mentioned in the Strategic Agenda 2024-2029, including technologies**

[2] Innovation Fund - Performance - European Commission

**and products along the whole value chain**. Ensure that the chemical industry is adequately represented, both in a dedicated fund and in the R&I funding calls. There is no clean tech without the chemical industry. Apply blended finance (inspired by InvestEU) and integrate European and national/regional funding schemes. This aligns with the *Competitiveness Compass*'s broader goal of technological sovereignty and economic resilience.

- **Delivering European added value as described in the Heitor report by**:
    - Increased, better focused and ring-fenced funding covering the full spectrum of RD&I.
    - Fund all applications reviewed as excellent through a combination of EU Framework Programme, Structural, and Member State funds (e.g., through Seals of Excellence).
    - Strengthening appropriate and user-friendly instruments and less prescriptive programme governance.

# The way forward

The Draghi report underlines that the European Competitiveness Fund should support strategic technologies and manufacturing that are critical to fostering European competitiveness. To address the above mentioned needs, following actions are necessary:

- **Simplify, accelerate, and integrate EU (R&I) financial instruments** (including Horizon Europe, Innovation Fund, InvestEU, etc.) to provide companies with a clear and transparent path to transition from early proof of concept to test market and commercialisation.

    - Introduce flexibility in project funding timelines by allowing more adaptable schedules for project milestones and funding disbursements, particularly in high-TRL projects. This in turn will allow companies to make Final Investment Decisions (FID , a critical point where companies decide to commit significant resources to a project), in line with market and regulatory certainty.
    - Encourage "challenge-based-approach" and focus on tackling the problem and allowing applicants to propose a variety of innovative solutions to tackle the challenge, as opposed to "solution-based-approach" which can limit the scope of innovation and restrict applicants to predefined methods.
    - Identify industry challenges and gaps and ensure funding aligns with EU priorities by introducing an Expression of Interest or similar to the Request for Information (RFI) in the US.

- **In line with the Heitor report the aim is to drive radical simplification, user orientation, and efficiency**:
    - Eliminate non-core, redundant, and underperforming programmes
    - Adopt a portfolio approach to agile project funding that accepts responsible risk in return for reduced administrative burden and transaction costs. This requires a

    radical reform of the application system to “trust first/evaluate later” and become more applicant-friendly, Commission-efficient, and impact-oriented and to ensure a reduced time to fund. Priority should be given towards simplification for beneficiaries.
  - Have less prescriptive calls for funding to capture opportunities in the uncertain and fast-moving scientific, technology, and business environment.
  - Current grant submission contain 30-40% of the budget and description on non-core technical requirements (on communication, demonstration, societal impact, management etc). There are standard write-up and can simply be embedded as a key requirement without the need to incorporate these in the submission. Also important to but reduce these costs to a standard percentage, less than current 30/40%. This would simplify the submissions to less paperwork and focus on the key selection criteria.

- **Develop, in collaboration with the industry, a “one-stop shop” such as STEP** for the low-carbon value chain sectors to allow for simpler, speedier, more flexible processes (see more below). Ensure application processes are fit for the size of the funds and secondary application files follow through the TRL level. Explore good examples of smart (funding) mechanisms from global players (US, South Korea, China, Japan, etc.), i.e. the US RFI (Request for Information) to collect information. The Competitiveness Compass highlights the role of STEP in steering funding towards strategic sectors, including clean tech and advanced materials.

- **Accelerate co-financing instruments** from lab to commercialization with single simplified files, that stitch funding across European and regional schemes focusing disproportionally more on mature technologies. Integrate European and regional funding schemes to provide companies with a clear and transparent path from early proof of concept, to test market, and commercialization. This can be achieved by combining grant and equity options in a single proposal, similar to recent EIC accelerator programs that exist for SMEs.

- **Establish complementary incentives between regional and European funding,** including for key public & private investor actors. European funding can "top-up" excellent projects already supported by more constrained regional funding (State-aid). The European "top-up" can be allocated and reserved for on best "champions league" projects across Europe.

- **Unleash the power of demand by developing an innovation procurement programme** to stimulate faster scaling-up by industry.

# “One-stop-shop” for the chemical industry

Current complex and multiple different funding schemes need to be untangled. Having a “one-stop-shop” for the project proposals and receive validation will add to the simplification. To integrate the various funding programs and seek complementarity between EU and regional/national levels, it is important that all the relevant actors in the funding space are connected. To this end, the Strategic Technologies Europe Platform (STEP) aimed to raise and steer funding to target investment in the areas of digital technologies and deep-tech innovation; clean and resource-efficient technologies; and biotechnologies, may provide for the much-needed central single window and a partner to guide the companies navigating from early proof of concept to commercialisation test market.

Once a project proposal is validated, a key function of STEP should offer predictability and guidance throughout the different steps from lab to market and identify adequate tools and risk-absorbing measures, including offering blended finance, for each of the different innovation phases.

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About Cefic
Cefic, the European Chemical Industry Council, is the forum of large, medium and small chemical companies across Europe, accounting for 1.2 million jobs and 13% of world chemicals production.
On behalf of its members, Cefic’s experts share industry insights and trends, and offer views and input to the EU agenda. Cefic also provides members with services, like guidance and trainings on regulatory and technical matters, while also contributing to the advancement of scientific knowledge.