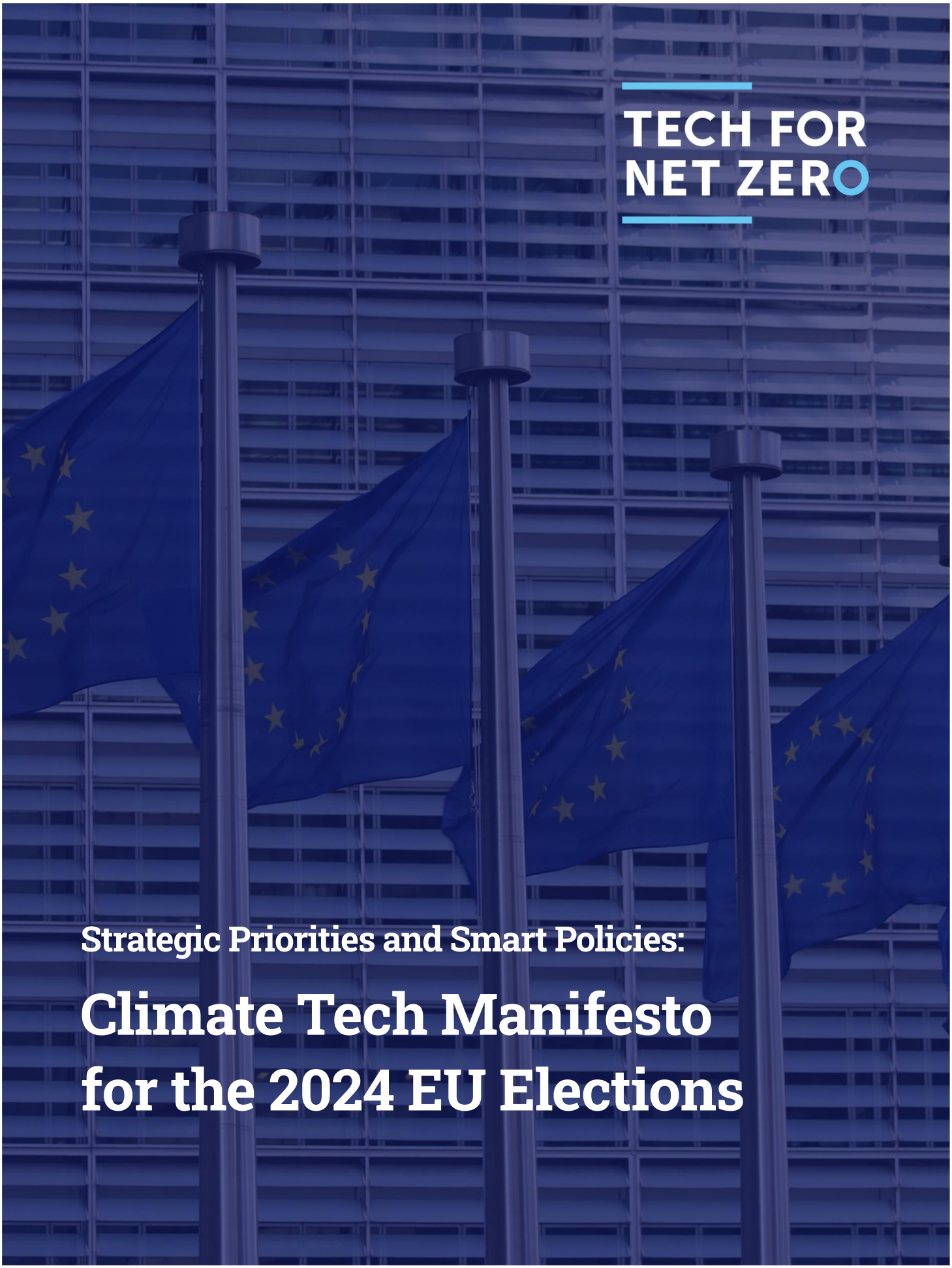

TECH FOR NET ZERO

Strategic Priorities and Smart Policies:

Climate Tech Manifesto for the 2024 EU Elections

1.5° Ventures
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Introduction

As we approach the European Elections, the continent stands at the crossroads: Europe's economic strength and resilience have been increasingly challenged in recent years. In such times of uncertainty, we advocate for a renewed commitment by the European Union (EU) to bolster its support for a secure and sustainable future of our societies, our economy, and our planet. Smart economic policies, market-centric policy mechanisms, and strategic investments in climate technologies are key to pursue economic growth but are also vital for securing a sustainable future for the EU and its citizens.

As the climate tech industry is powered by innovation and entrepreneurship, it acts as a driver of economic growth and job creation. New solutions in the fields of battery storage, carbon capture, electrolyzers, climate-positive materials, green chemicals, electric heat and many more climate technologies are emerging, which lead to spin-offs and the creation of new companies. Through continued innovation, climate tech has become a foundation for economic prosperity and ensures a sustainable future. Moreover, climate tech manufacturing enables the backbone of the European economy, the small and medium-sized enterprises (SMEs), to adapt in changing times and to position themselves with novel technologies for the future. Through this and by creating new markets, climate tech innovators strengthen Europe as an industrial location and ensure the continent's strategic leadership. Furthermore, new climate tech ventures already create hundred thousands of new jobs across the continent, generate local tax revenues, and reduce energy costs, thus safeguarding the future prosperity of the European economy.

To achieve its ambitious climate targets, the EU requires substantial advancements and investments in clean technologies across various sectors. Climate tech innovation plays a crucial role in enabling the EU and its citizens to reach the declared 55% net greenhouse gas emissions reduction target by 2030 as well as climate neutrality by 2050. This highlights the importance of fostering a supportive environment for climate tech development and deployment through initiatives like regulatory reforms and financial instruments. As the climate industry fosters innovation, economic growth, and European leadership, the industry should be a core topic in the upcoming EU Election.

> *With its strong research and talented founders, Europe is destined to be the global leader in developing breakthrough climate technologies and thus gaining new economic strength and sovereignty. The next five years are crucial for this, the EU must finally deliver and address the lack of climate tech funding as well as provide suitable framework conditions. As Tech for Net Zero, we support policymakers to jointly develop solutions with the climate tech ecosystem.*

Dr. Tobias Lechtenfeld, Executive Director of Tech for Net Zero

1. Crowding in private capital for scaling up climate infrastructure

In Europe's journey towards a net-zero economy, the challenge lies in mobilizing institutional investors' funds and making policies that promote this shift in capital. While US pension funds and insurers often are large venture and growth capital investors, their European equivalents lag behind. In 2021, US public pension funds spent 1.9% of their assets in venture funds, whilst EU pension funds invested less than 0.018% of their total assets in venture structures. The EU's capacity to scale the ideas developed is therefore greatly impacted by this 100x disparity. In order to facilitate institutional investors' financing of the cleantech revolution, prudential regulations need to be revised. Additionally, more mechanisms to de-risk investments and fund-of-funds to attract private capital need to be developed.

To address the specific investments cases of climate tech projects, enhancing public guarantee instruments plays a pivotal role. Guarantees, particularly for climate tech startups and financing first-of-a-kind (FOAK) commercial facilities, de-risk private investments that are crucial for the green industrial revolution. Public guarantees have proven to be a highly effective industrial policy instrument to mitigate technical risk and make projects bankable, hence enabling the financial viability of these projects. By further developing public guarantee instruments for innovative climate tech startups and for financing commercial FOAK facilities, Europe must unleash private capital to bankroll the green industrial transformation. To enable public guarantees, the EU should build on existing expertise and structures of the European Investment Bank (EIB) and design the program using internal and external best practices, particularly the successful loan guarantee program of the US Department of Energy. Credit guarantees for commercial FOAK facilities that can demonstrate commercial offtake agreements, technical readiness, and sufficient forecasted cash flow should be prioritized over pure balance sheet assessments, to enable the deployment of breakthrough climate innovation.

> *Cutting-edge climate ventures frequently encounter substantial financial obstacles because of their unique characteristics, causing traditional funding providers to be cautious about investing. Yet, through deliberate involvement of private investors and demonstrating the prospects for both monetary gains and environmental outcomes, we can access the essential funds needed to realize these projects.*

Dr. Isabelle Canu, Partner at Green European Tech Fund (GET)

2. Leveraging existing resources and providing incentives for climate innovation

Revenues from the EU Emissions Trading System (EU ETS), which provides relevant financing for green investment mechanisms, need to be further leveraged. First, the EU Innovation Fund should be made more accessible to cleantech companies. Also, EU Member States should direct at least 25% of their ETS revenues towards domestic cleantech manufacturing. Given the current fiscal situation, the EU should also consider “front-loading” relevant investments by borrowing against future ETS revenues to gain more short-term capabilities and accelerate the establishment of manufacturing capacity.

Contracts for Difference (CfDs) are another crucial instrument for fostering a robust climate tech sector in the EU. These financial agreements bridge the gap between the higher costs of new, low-carbon technologies and the current market price. By guaranteeing a fixed price for emission reductions or clean energy production, CfDs provide financial certainty for companies developing and deploying these innovations. This incentivizes investments in climate tech, accelerating its development and making it more competitive in the long run. Our demands for the EU include ensuring long-term funding and a commitment to continuously support climate-friendly technologies and innovations. This would position Europe as a leader in green technologies, maintain its global competitiveness and advance its climate goals.

Such proposals go hand-in-hand with the phasing out of fossil fuel subsidies to create a fairer market for clean technologies. By phasing out fossil subsides, green alternatives become more cost-competitive and thereby attract greater investments. The shift in public resources increases investor confidence towards climate tech companies, which empowers them to flourish, accelerating innovation and production of low-carbon solutions. Ultimately, this would solidify the EU's position as a leader in the global clean energy market and strengthen its green economy.

> *By strategically allocating funds and providing incentives for companies dedicated to combating climate change, we can catalyze a wave of innovation that transforms industries and safeguards our planet's future. By aligning financial incentives with climate goals, we not only spur technological advancements but also foster a sustainable ecosystem where startups can thrive and make a meaningful impact.*
>
> **Christian Vollmann, CEO of C1 Green Chemicals AG**

3. Improving existing policy frameworks for an enabling climate tech regulation

The EU has initiated strategic support of green technologies through frameworks like the Net Zero Industry Act (NZIA), but it needs to step up. The NZIA provides a strategic direction for the manufacturing of several net-zero technologies, however, it can only be a starting point. Europe needs a real energy resilience strategy that takes into account geopolitical rationale, energy sovereignty and a competitive advantage in cleantech innovation. Such a strategy would strengthen the climate tech industry and also support the EU's climate goals and foreign policy directives.

Green public procurement (GPP), the purchase of climate-friendly or ideally carbon-neutral goods and services by state authorities, plays a pivotal role in strengthening the green economy. First, it reduces the government's direct carbon footprint. Second, increased demand spurs innovation and competition, thus lowering costs for novel climate technologies (i.e., reducing their “green premium”). Third, climate-neutral public procurement strengthens and prolongs countries’ hold on companies and innovators who are leading the world in climate tech R&D and commercialization. In Germany for example, every year public contracts worth of ca. €500 billion are awarded, which corresponds to roughly 15 percent of GDP. With the public sector being a major client in key sectors such as construction, GPP is a significant lever for reducing greenhouse gas emissions and fostering the commercialization of innovative, climate-friendly products and technologies.

Regulatory sandboxes, controlled environments for developing, testing and scaling innovative technologies, promote the development of innovative climate solutions. Such sandboxes offer real-world experimentation, reducing development time and risk, while informing future regulations and attracting investment. By fostering innovation, facilitating informed policy, and mitigating investment risk, regulatory sandboxes can enable European innovators and propel the climate tech sector to a global leadership position.

> *The international competitiveness of European climate tech startups hinges on a regulatory and normative framework conducive to rapid scaling. This necessitates clear policies to provide decision-making certainty, alongside the modernization of standards to foster a fair environment for innovative, climate-friendly solutions. By collaborating with policymakers and initiatives such as Tech for Net Zero, we can create an enabling environment where innovation thrives, driving us closer to a sustainable future.*
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> **Stefanie Gerhart, Co-Founder and CCO of ecoLocked**

Call to action

Our continent stands at a pivotal moment, where decisive action is needed to secure a sustainable future for generations to come. The EU needs new economic impetus for job creation and technological sovereignty. From wind turbines to geothermal energy and clean heating solutions, European climate tech innovators have proven their technological capabilities. But our potential goes far beyond current achievements. It's time to leverage our edge and become the undisputed champion in climate-friendly technologies.

The climate tech industry, driven by innovation and entrepreneurship, serves as a catalyst for economic prosperity and job creation. By prioritizing smart and market-driven policies that mobilize private capital, leverage existing resources, and improve regulatory frameworks for climate tech innovation, we can propel Europe towards achieving ambitious climate targets while fostering economic growth and job creation. We need a comprehensive strategy that tackles challenges head-on.

As citizens of Europe, we urge policymakers to make climate tech a top priority in the upcoming EU Election and in the following legislation. We therefore call on European politicians to become climate tech champions and pave the way for a more sustainable future for generations to come. Moreover, we encourage all citizens to inform themselves about the political positions and proposals of their local candidates and to make use of their democratic vote by participating in the EU Election on June 9. The time is now. Let's harness Europe's climate tech innovation and take action for a strong, sovereign and sustainable future.

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Tech for Net Zero is a network of over 50 leading climate tech startups, scaleups and investors in Germany and the DACH region. The alliance focuses on expanding climate tech finance, stimulating market demand, and adopting an enabling regulatory environment to accelerate the scale-up of breakthrough climate technologies.

Given the abundance of technical solutions, talent, and financial resources, we believe achieving the climate targets is a matter of speed, focus, and execution. We need all hands on deck to move faster and turn Europe into a climate tech powerhouse. As a climate tech competence center, Tech for Net Zero is a reliable partner for policymakers, investors, and founders.

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