

# Innovation Requires an Efficient Strategic Energy Technology (SET) Plan

*An Open letter from CEPS to the Energy and Innovation European Council on 4 February 2011*

19 January 2011

The Cancún Agreements mark the first time that all major economies have not only pledged to undertake explicit actions under the UN Framework Convention on Climate Change but also have formally agreed to limit the average global warming to below 2°C. This is a major achievement for the EU, which has been leading international efforts to combat domestic and international climate change, notably but not only through the targets for 2020. This also means that international attention is rapidly shifting to low-carbon technologies. It has even been proposed to transform EU-US relations into a transatlantic “Partnership for Innovation”,<sup>1</sup> with technology residing at the heart of the initiative.

The Strategic Energy Technology (SET) Plan, in the European Commission’s own words, is the “technology pillar of the EU’s energy and climate policy”, “a blueprint for Europe to develop a world-class portfolio of affordable, clean, efficient and low emission energy technologies”. Approved by member states, “it lays out the EU’s strategy to accelerate the development of these technologies and to bring them more quickly to the market”. This acknowledges that “the development of resource-efficient and green technologies will be a major driver of growth” as was outlined in the European Commission’s May 2010 Communication on the implications of Copenhagen. Low-carbon technologies have moved to the centre of EU industrial policy. In the context of the SET-Plan, the Energy Council reiterated at its meeting on 3 December 2010: “future financial perspectives should provide adequate support for the Union’s activities in the field of innovation and technology.”

<sup>1</sup> See op-ed by US Ambassador to the EU William E. Kennard in *The International Herald Tribune*, 14 December 2010.

This Commentary presents preliminary key messages and recommendations of the CEPS Task Force on “The Strategic Energy Technology Plan: From Concept to Practice”. Taking the form of an ‘open letter’ addressed to the EU heads of state and government, it aims to express the views of the Task Force members in the run-up to the summit meeting of the Energy and Innovation European Council on 4 February 2011. The Task Force is composed of representatives of business and industry, environmental NGOs, business associations and other stakeholders (see <http://www.ceps.eu/taskforce/eu-strategic-energy-technology-set-plan-concept-practice>). The members of the Task Force will finalize their work and agree upon the final report, drafted by rapporteurs Christian Egenhofer, Jorge Núñez Ferrer and Monica Alessi, after the European Council meeting. The Task Force is chaired by Lars-Erik Liljelund, Chief Executive Officer, Foundation for Strategic Environmental Research (MISTRA) of Sweden, former Special Envoy of the Prime Minister of Sweden on Climate Change and Director-General of the Swedish Environmental Protection Agency.

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EU action to bring low-carbon technologies quicker to the market is required because:

- economic growth and climate change policy go hand-in-hand, and
- accelerating the ‘natural’ rate of investment needs government support for low-carbon technology deployment.

Only the EU is in a position to drive forward low-carbon technologies because it can:

- capture the full technology capacity within the EU,
- address technology projects that are too big for any one member state,
- cope with the risks associated with new and untested technologies and
- build upon the recently proposed “Innovation Union”<sup>2</sup> by improving cooperation and coordination on low-carbon technologies.

If the EU fails to innovate, competitors such as China and the US will quickly surpass the EU in its leadership in low-carbon technologies. In some areas, this is already happening.

The first European Council meeting dedicated to energy and innovation on 4 February 2011, is an opportune moment to show the EU’s leadership in making available the necessary tools for quickly developing innovative, low-carbon technologies in Europe. At its heart, this would involve putting in place a stable framework and governance rules, including a commitment to finance the SET Plan.

Most importantly, the EU will need to show not only a political commitment, but also a practical commitment to establish the necessary financial framework conditions. This will require an increased and clearly allocated contribution from the EU budget as well as a review of the Financial Regulation and other regulations governing EU expenditure, such as the R&D Framework Programme, and the Structural Funds to enable more effective and efficient Public-Private Partnerships. These steps will only work if they are embedded in a more trusting and risk-tolerant approach to EU research funding, applying where appropriate the derogation from EU state aid rules foreseen in Article 107(3)b TFEU for investments in an “important project of common European interest”.

The SET Plan represents the paradigm shift “going well beyond the narrow domain of R&D and innovation policy” by combining the “market for innovative goods and services, focused resources, new financial structures and mobility of people, money and organisations” as demanded as early as 2006 by the report by the Independent Expert Group on R&D,<sup>3</sup> chaired by the former Prime Minister of Finland Esko Aho and entitled “Creating an Innovative Europe”.

The framework conditions for the SET Plan need to be appropriate. Without specific and fundamental policy reforms, Europe will not be able to achieve its technological and political ambitions in the key areas of energy and climate change policy, affecting its economic prospects and its role at international level.

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<sup>2</sup> Launched by the European Commission in October 2010, the Innovation Union sets out a strategic approach to innovation, intended to be driven at the highest political level. The Union will focus Europe's efforts – and cooperation with third countries – on major challenges such as climate change, energy and food security, health and an ageing population (see <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1288>).

<sup>3</sup> See [http://ec.europa.eu/invest-in-research/action/2006\\_ahogroup\\_en.htm](http://ec.europa.eu/invest-in-research/action/2006_ahogroup_en.htm)