

Europe's Industrial Transformation at Risk: EIB's Guarantee Facility is the Key to a Sustainable Future

In its recent Wind Action Plan, the European Commission announced that the European Investment Bank (EIB) will make de-risking guarantees available to speed up investment and financing for wind energy manufacturing in Europe. Last week, the Commission included electricity grids in these guarantees with its Grid Action Plan. We welcome these announcements. Beyond its significance for the wind and grid sectors, public guarantees hold the key for financing projects by emerging cleantech manufacturers as outlined in the Net Zero Industry Act (NZIA). In the following we present our arguments on why performance guarantees are important for the wind and grid sectors and why they should be expanded to cover other NZIA cleantech priority sectors as well:

1. **Guarantees secure Europe's energy transition:** Guarantees are as vital for large-scale energy infrastructure projects as they are for cleantech start- and scale-ups building commercial first-of-a-kind projects or selling innovative equipment such as electrolysers or long-duration energy storage systems. They can ensure that suppliers deliver on their promises and protect operators from financial losses. Commercial banks can leverage public guarantees to cover 20-30% of a project's financing needs, and provide safety for customers, lenders, EPC contractors and operators if suppliers fail to meet their obligations.
2. **Climate targets expose a capital market failure, threatening Europe's clean energy future.** To meet our ambitious climate goals, Europe needs a massive increase in wind generation and electricity grid investments. Offshore wind capacity must grow from 32 to 150 GW by 2030, and combined wind capacity from 16 to 30 GW per year. This surge will strain the capacity of EU-based manufacturers, and of entire supply chains, including shipyards and cable manufacturers. Expanding guarantee programmes will allow EU manufacturers and start-ups confidently invest at the speed required of them. As example, to deliver a 2 GW HVDC offshore wind platform, €300 million in guarantees are required and these stay on the books of manufacturers until project completion. This restricts their liquidity, is unproductive capital, and slows down deployment. It also provides an opportunity for non-European competitors to seize market share and undermine European industrial competitiveness.
3. **The energy transition will only succeed if emerging technologies are brought to commercial scale at fast pace.** According to the IEA, 35% of emissions reductions needed for net zero in 2050 come from technologies that are not yet commercially available. Many cleantech companies face difficulties mobilizing finance from investors. Limited collateral and the lack of an established credit history are major hurdles. When selling innovative equipment, cleantech manufacturers must provide bank guarantees, to mitigate the buyer's risks in purchasing their equipment. Because of their lower bankability compared to industrial incumbents, innovators are not able to finance these guarantees at a reasonable cost, tying up precious working capital in collateral that could be used to ramp up manufacturing capacity. Public guarantees offer policymakers an efficient instrument to mobilise more private capital towards cleantech manufacturing.
4. **The issue is access, not cost, and European manufacturers are at risk.** Commercial banks cannot expand manufacturers' guarantee limits due to prudential risk requirements, even though technical guarantees are low risk. The International Chamber of Commerce estimates the average ultimate loss rate for performance and financial guarantees is currently between 0.2% and 1.7%¹. This means for every euro of public money spent, 59 to 500 euros of working capital could be invested in cleantech manufacturing. Without a solution, European wind manufacturers and supply chains will suffer competitively, losing their ability to bid for projects and jeopardizing Europe's energy transition.

¹ <https://iccwbo.org/wp-content/uploads/sites/3/2022/04/icc-document-icc-gcd-performance-guarantees-study.pdf>

5. **The EIB's counter-guarantee facility is the main catalyst for a thriving green economy.** By shifting the risk from commercial banks to the EIB's balance sheet and the European budget, via InvestEU, banks can grant new guarantee lines for wind and grid projects and support emerging cleantech manufacturing. This is deeply strategic and a crucial intervention to address a capital market failure and ensure Europe's energy system and industry transformation. The EIB would be fulfilling its mandate by stepping in where commercial banks reach their limits, as these limits were not configured to match the speed and ambition of our energy transition. The EIB is now the most important catalyst for the biggest transformation of this century.

We, the undersigned organizations, call on the European Commission and European Investment Bank to approve the announced guarantee facility quickly, and to work towards expanding the scope of the instrument towards strategic cleantech manufacturing sectors in line with the NZIA.

