EU Energy Policy and its Instruments

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ČESKÁ SPOŘITELNA

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Introduction

The **EU energy policy** is specific due to its **peculiar nature**. It exists on the community level, but the majority of authorities still remains in the hands of the member states. Therefore, there is virtually no such thing as a common energy policy, unlike, for example, common agricultural policy.

Neither the EC, nor the EU Treaty includes a **special chapter on energy**. The Treaty of Rome merely declares that the activities of the European Communities focusing on meeting the EC goals include also measures in the energy industry. The upcoming **Treaty establishing a Constitution for Europe** puts greater emphasis on the energy issue, devoting a special section to it and ranking it among the areas in which the EU should share powers with the member states. In view of the creation and operation of the internal market, and taking into account of environmental protection issues, the Constitution Treaty sets the following objectives for the EU energy policy:

- ensure the **functioning of the energy market**;
- ensure **safe supplies of energy** within the EU;
- promote **energy efficiency and energy savings**, as well as the development of **new and renewable energy** sources.

Determining the conditions for utilizing energy resources, as well as the selection of various energy sources, has **remained the authority of the member states**. Therefore, not even the prepared European Constitution, now in a state of clinical death, would change anything about the current energy policy.

Energy-related issues (the coal market) have been addressed in the Paris **Treaty Establishing the European Coal and Steel Community** (the Treaty expired in 2002 and was incorporated into the EC Treaty), and the Treaty Establishing the European Atomic Energy Community (EURATOM), dealing with the safe and effective utilization of nuclear energy.

The EU energy policy has a **fragmentary nature**. The European Commission has a **Directorate-General for Transport and Energy**, but energy also falls into the competency of the Directorate-General for Internal Market and Services, and the Directorate-General for Environment. Since last November, the political responsibility for the energy sector belongs to **Andris Piebalgs** from Latvia, current Commissioner for Energy. On the member state level, there is also the **EU Energy Council**, associating the ministers responsible for the energy sector. In the European Parliament, energy issues fall into the competency of the **Committee on Industry, Research and Energy**, which even has Czech members – vice-chairman Miloslav Ransdorf, and members Jan Březina and Vladimír Remek.

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Primary Goals and Instruments of the EU Energy Policy

The primary objective of the European energy policy is **to ensure stable energy supplies, and offer the consumers the possibility to purchase electrical energy, gas and fuel for affordable prices, while respecting the principles of environmental protection**. As one of the key sectors of European economic system, energy is vitally important for maintaining competitiveness and implementing the **Lisbon Strategy**, fulfilling the obligations imposed by the **Kyoto Protocol**, and maintaining **security in Europe**.

According to Commissioner Piebalgs, the period until 2010 will be decisive for the EU energy policy. In the medium term, oil and gas prices are likely to keep growing. At the same time, the EU must support the Kyoto process of reducing greenhouse gas emissions, and maintain its leading position in the responsibility for the Earth's environment. Considering the distribution of natural resources on Earth, it is obvious that in the future, the European Union will grow even **more dependent on outside energy resources**.

Depending on all of the above-mentioned factors affecting the current European energy policy, we may identify the three current primary objectives:

- **create effective, open competitive electricity and gas markets;**
- **ensure the safety of energy supplies;**
- **achieve strict environmental objectives, especially as regards the fight against the changes in climate.**

The above objectives can only be met by implementing the following six priorities:

1. improve energy efficiency;
2. create a well-functioning unified internal gas and electricity market benefiting all citizens;
3. support renewable energy resources;
4. improve nuclear security;
5. ensure energy supplies for Europe and improve international energy cooperation;
6. improve the relationship between energy policy, environment and research.

1. Improve energy efficiency

Energy efficiency is a key issue in the current EC energy policy, and is likely to remain so in the near future.

It is a widely accepted fact that the European Union **may save up to 20 percent of its energy consumption**. Even if it managed to achieve only a part of this objective, it would improve Europe's competitiveness, the safety of energy supplies, and increase the chances of fulfilling the Kyoto Protocol objectives. It would also contribute to higher employment, since most services and products related to improving energy efficiency come from the EU countries. According to Commissioner Piebalgs, it seems realistic and feasible to **save the equivalent of 70 million tons of oil a year by 2010**, which would be consumed without the adoption of adequate measures. This represents annual savings of €15 billion, reducing the CO_2 emissions by 140 million tons, and slightly lower dependence on outside energy resources (sober estimates expect the saving of 4 percent of the entire oil import).

Improving energy efficiency is not an entirely new aspect of the EU energy policy, albeit specific measures have only been adopted at the beginning of the new millennium (see Box).

BOX - Primary EU legislation on energy efficiency:

- directive No. 2002/91/EC on the energy performance of buildings;
- directive No. 2004/8/EC on the promotion of cogeneration;
- directive No. 2003/96/EC, restructuring the Community framework for the taxation of energy products and electricity;
- directive No. 2000/55/EC on energy efficiency requirements for ballasts for fluorescent lighting;
- directive No. 2002/40/EC on energy labeling of household electric ovens, air conditioners and refrigerators;
- regulation No. 2001/2422/EC on a Community energy efficiency labeling program for office equipment;
- directive No. 2005/32/EC establishing a framework for the setting of eco-design requirements for energy-using products;
- draft directive on the efficiency in the end use of energy and energy service.

The future policy of the European Union regarding energy servings and improving energy efficiency has been outlined in the **Green Paper on Energy Efficiency**. Commissioner Piebalgs noted that if no additional measures were taken, energy consumption in the EU would **increase at least by 10 percent in the next 15 years**; a very adverse development considering that it is estimated that in 2030, the EU **will import 70 percent of all its energy** (90 percent of oil and 80 percent of natural gas) from abroad. Moreover, the prices of imported energy represent another potential risk.

The Green Paper therefore offers a number of possibilities of achieving the goal of saving 20 percent of energy consumption by 2020 through **consumer behavior** (replacement of old boilers; regular tire pressure checks; good roof insulation, etc.) and wider **use of energy-efficient technologies** in the business sphere. However, energy-saving measures, both in households and business, can only work if the public administration offers sufficient incentives for citizens to want to save energy.

The Green Paper proposes that the member states complete mandatory **regular annual energy-saving plans**, to be then carefully implemented under EU supervision. The plans should include better citizen awareness; better energy labeling of products; various tax instruments, such as penalties for energy wasters and tax allowances for energy savers; state subsidies and European funding for better energy efficiency or improved regulations on building insulation.

In order to achieve these objectives, the Commission has called for establishing partnership between the EC, member states on both a national and regional level, and other relevant entities, such as international financial institutions. An important role belongs to the **International Financial Corporation** (IFC), whose support programs may also be utilized in the Czech Republic (see below).

The Green Paper content is now open to consultations of all parties involved, which shall result in the issue of a more specific **action plan next year**, defining various legislation acts required to implement the necessary measures.

2. Create a well-functioning unified internal gas and electricity market benefiting all citizens

Political decisions in the area of energy market liberalization have been made and a sufficient legal framework has been established. Currently, it is a priority to ensure that the rules adopted **are correctly implemented** by the national states.

Market liberalization aims at **increasing competition and reducing prices**. Thanks to the liberalization directives, the EU has become the most integrated energy market in the world. Gas and electricity markets have been opened to all business customers in **July 2004**, and the same will be true for households from **July 2007**. However, success has been scarce, sometimes merely formal.

The fourth annual report on the establishment of internal natural gas and electricity market, published in January 2005, has reached a sad conclusion: even though the **directives No. 2003/54/EC** concerning common rules for the internal market in electricity, and **No. 2003/55/EC** concerning common rules for the internal market in natural gas, have been in effect since July 2004, 18 of the 25 member states have not managed to incorporate them into their national legislation in time.

Another legislation pillar of the integrated energy market is the regulation **No. 2003/1228/EC** on conditions for access to the network for cross-border exchanges in electricity, and the upcoming regulation on the conditions for access to gas transportation systems.

By inconsistent enforcement of its directive, the EU fails to utilize **fully its economic potential** ensuing from open, liberalized energy markets. Whereas in some countries (the United Kingdom – both gas and electricity; Scandinavian countries – electricity), energy markets are fully open and liberalized, the results in other countries, including the Czech Republic, are far from satisfactory, and the progress is too slow.

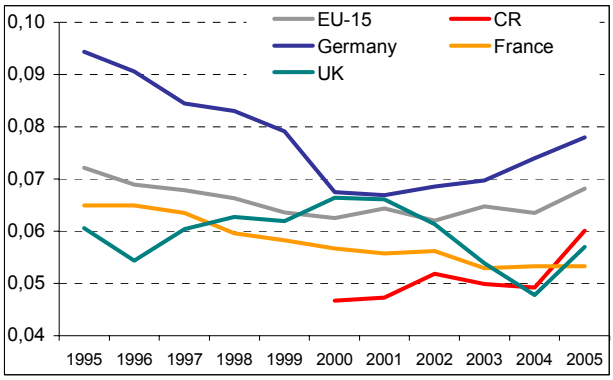
Furthermore, investments into building cross-border infrastructure are insufficient, which **prevents the establishment of a truly single internal EU market**. Customers and consumers may only benefit from opening of the gas and electricity markets if adequate connecting networks are available.

It is necessary to **improve market competition**. Presently, the majority of member states are still dominated by former monopolies, and only a small number of customers have changed providers. In many countries, it has also proved impossible to achieve full independence of transmission operators and distribution network operators.

The future methods of enforcing an open energy market will be set in the summary **report on the functioning of gas and electricity markets**, scheduled to be published at the end of 2005. The report identifies the necessary areas of improvement, and the required legislative measures to be proposed by the Commission.

In spite of all of the above problems, the opening of EU energy markets could still be deemed a **successful project**. Compared to the year 1995, electricity prices in most countries have dropped by **10 to 15 percent**. In most countries, one quarter of corporate customers have changed their electricity providers. However, new providers mostly come from the same country; the average share of foreign electrical power companies on domestic market is less than 20 percent. The positive effects of the opening of the gas markets have not been as apparent, due to the growing prices of oil in the past years.

Electricity prices for industrial users in EUR per kWh



Source: Eurostat

3. Support renewable energy resources

The increased utilization of renewable energy resources **eliminates the negative impact on the global climate**, **improves competition** by creating new jobs, and strengthens Europe's position as the eco-technologies leader.

The primary document in this field is the **directive No. 2001/77/EC** on the promotion of electricity produced from renewable energy resources. The goal it imposes until 2010 is to achieve the **level of 12 percent of gross national energy consumption** produced from renewable resources across the EU, and to reach the **level of 22.1 percent of electrical energy produced from renewable resources** within the same deadline. To achieve these general objectives, the member states have defined their **national targets** in both categories. These may differ depending on the countries' natural conditions. Renewable energy resources include water, wind and solar power plants, and equipment using geothermal energy and biomass combustion. However, if the countries do not manage to improve the current trends, the "green energy" share will probably not exceed 18 percent.

A number of supporting instruments are used to achieve the target levels. The **support schemes vary depending on the political priorities** in each member state, ranging from direct financial subsidies, to setting minimum purchasing prices of produced electrical energy, investment incentives or tax advantages. The Commission is **not planning any harmonization** of these schemes in the medium term. Commissioner Andris Piebalgs said that he did not think any such proposal would be presented within his term (by the end of 2009). According to Piebalgs, the best approach is the cooperation of existing support schemes, in order to achieve the target values set in the directive on the promotion of electricity produced from renewable energy resources. Another key regulatory act promoting renewable resources is the **directive No. 2003/30/EC** on the promotion of the use of biofuels or other renewable fuels for transport. Pursuant to the directive, member states must ensure that the **minimum share of biofuels** and other alternative fuels, compared to the oil and gasoline used for transport, **is 2 percent by the end of 2005, and 5.75 percent by the end of 2010**.

Other legislative acts supporting the use of biofuels include the **directive No. 2003/96/EC**, restructuring the Community framework for the taxation of energy products and electricity. The directive allows the application of a **reduced excise tax rate on biofuels** used as engine fuel. This preferential tax regime is currently applied in nine member states, including the Czech Republic.

Renewable energy resources are also supported by the "**Intelligent Energy for Europe**" program. This community support program for the years 2003 to 2006 aims at providing financial support to local, regional and national initiatives with the aim to eliminate market barriers, promote the **increased used of renewable energy, and improve energy efficiency**.

Unlike, for example, the "6th Framework Program for Research and Technology", this program does not allow funding investments in technology, but focuses rather **on promotional activities**.

The program is divided into four categories:
SAVE – aims at improving energy efficiency and rational energy utilization, especially in industry and construction.

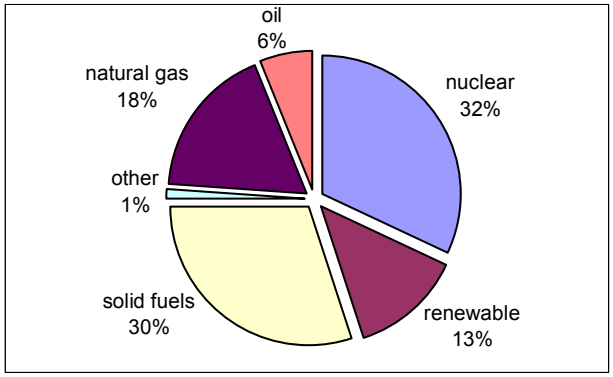
ALTENER – involves the promotion of new, renewable energy resources for both centralized and decentralized production of electricity and heat, and their integration into the local ecosystem and energy systems.
STEER – supports initiatives related to the energy aspects of transportation: fuel diversification, renewable fuel (biofuel) promotion, and energy efficiency in transportation.
COOPENER – supports activities related to promoting renewable energy resources and energy efficiency in third-world countries, especially within the framework of EU cooperation with underdeveloped countries in Africa, Asia, Latin America, and the Pacific Region.

For the entire 2003 – 2006 period, the program has a budget of €250 million. The budget should increase substantially in the subsequent period 2007 – 2013.

4. Improve nuclear security

Nuclear energy is an important part of the energy mix. Currently, it **represents approximately one-third** of all electrical energy produced; this share is likely to remain the same or even increase, due to the increased dependence on oil and oil products and the obligations to reduce greenhouse gas emissions. The European Commission is obligated to implement the **Euratom Treaty** into its energy policy, especially as regards the provision on radiological protection and nuclear safety. As we have indicated, the main focus of EU nuclear policy is the **emphasis on operating safety**. In the last five years, EC specialists have performed more than 2,500 nuclear safety inspections a year.

Gross electricity production per energy source in EU-25



Source: European Commission, figures in 2002

BOX: **Senior EU Members (EU-15) and Nuclear Energy**

Eight of the fifteen "senior" EU members currently operate nuclear power plants. However, five of these countries have imposed a moratorium on nuclear energy. Germany has decided to terminate nuclear energy production in 2021, and Belgium intends to do the same in 2025. The Netherlands, Spain and Sweden plan to use nuclear energy only until the expiration of the life cycle of their nuclear power plants. The remaining three countries – France, Finland, and the UK – do not intend to terminate their nuclear program. France and Finland are even planning to build new nuclear reactors.

New EU Members and Nuclear Energy

The ten new EU members are not so strict about the nuclear energy issue. During the accession talks, some have agreed to close down their old and unreliable plants. Most, however, are not considering imposing any moratoria on nuclear energy production.

There are, however, **no unified EC-level nuclear safety standards**, which remain in the competency of the national states. At the beginning of 2003, the European Commission presented two draft directives, reflecting, among other things, the EU enlargement by ten new countries with lower nuclear safety standards:

- **Draft directive in the field of nuclear safety** (COM 2003/32-1); it defines common safety standards, based on international principles set forth by the International Atomic Energy Agency (IAEA), which may be enforceable in the EU. An important role has been assigned to the National Regulation Committee, consisting of the representatives of the national regulatory bodies and the EC.
- **Draft directive on the management of burnt-out nuclear fuel and radioactive waste** (COM 2003/32-2); it imposes on the member states the duty to create radioactive waste management programs. There is no single mandatory method of storing nuclear waste, albeit underground storage should be a priority.

Both drafts will be very difficult to push through, since member state representatives in the EU Council **fight against transferring** these competencies to Brussels.

An important aspect of the European nuclear energy policy is the emphasis on **research and development**, especially as regards searching for a long-term technical solution of safer burnt-out nuclear waste. In order to achieve higher concentration and rational utilization of available resources, the EC has proposed the establishment of a **Common**

Nuclear Waste Management Program, which should govern all European activities in this field, funded by the 7th Framework Program for Atomic Energy (EURATOM) for research and technological development.

5. Ensure energy supplies for Europe and improve international energy cooperation

The energy situation throughout the world has changed substantially in the past few years. The demand for energy resources, especially oil, has grown rapidly in China and India, raising oil prices to long-term maximums. However, some specialists claim that the current price of **approximately $60 per barrel** is not final, and is likely to keep growing in the medium term.

The future energy dependence trends have been defined in 2000 in the **Green Paper titled "Toward the European strategy for securing energy supplies"**. According to the scenario it presents, 70 percent of the EU energy supplies will come from third countries in the year 2030, compared to the current 50 percent. European countries have still not managed to curb the energy consumption growth (by 1-2 percent a year), while energy resources available in the EU territory are either **limited or impossible to exploit**.

The 2000 document has been the basis for the **Green Paper "Four Years of European Initiatives"**, published in the middle of 2005. It emphasizes that since 2000, the negative trends leading to the increased dependence on foreign energy resources have not been overturned, in spite of the progress achieved. To improve the situation, it has proposed four tasks:

1. **Managing energy demand.** The primary task is to lower energy consumption as much as possible. Apart from household consumption, this also concerns transportation, and the largest energy-consuming industries.
2. **Diversifying European resources.** The EU energy resources are limited, but the EU should learn to utilize them better. Nuclear energy produces approximately one third of electricity production, while representing a relatively cheap, stable energy resource, and one without CO_2 emissions at that. Renewable energy resources and biofuels, which may replace oil products, are also very promising. Unfortunately, thermonuclear fusion and hydrogen-based fuels are still light years away, and their development faces a number of obstacles.
3. **Speeding up the creation of an integrated internal energy market.** Electrical power failures in 2003 have demonstrated the increased necessity for international connection of energy networks, and better coordination between national providers. The liberalization of the electricity and gas markets should go hand in hand with ensuring fair competition and optimal sustainable utilization of energy networks.
4. **Supervising outside energy supplies.** The EU should establish strategic partnerships with primary energy providers, such as Russia and the Middle Eastern countries, while at the same time, supporting the dialog with neighboring countries in order to integrate their energy networks, so as to ensure higher supply safety.

An important role in ensuring safe energy supplies to the EU belongs to the draft directing on protecting the safe supplies of electrical energy and investments in infrastructure (COM)2003 740. The directive is a part of the **"energy package" from December 2003**, drafted in reaction to the summer 2003 power blackouts.

The directive aims at **promoting investments in the European energy sector**, in order to boost competition and help prevent power failures. The draft emphasizes the importance of creating a suitable legislative framework for ensuring safe electrical energy supplies, as well the adequate interconnection between member states, by means of transparent, non-discriminating policies. All of these aspects are an essential prerequisite for the effective functioning of a competitive internal electricity market. Presently, the draft is going through a standard legislative procedure.

Securing the safe outside energy supply is critical for developing **good partnerships with countries with rich energy resources**. The key partner in this respect is **Russia**, which supplies the EU with half the volume of its natural gas consumed, one quarter of oil, and one third of its uranium.

The **Russian-EU** cooperation is carried out within the **Energy Dialog**, launched officially in 2000. It aims at **securing the safe supply of energy resources**, and developing cooperation in the field of energy savings, production rationalization, building of transportation infrastructure, supporting investments, and developing joint energy networks. Every year, a report is published on the progress achieved in the energy dialog of both partners. The last report was published this October.

The strategy of securing safe electricity supplies also involves **strengthening the relationships with south-eastern Balkan countries**. Cooperation is carried out by means of the so-called Athens Process, which culminated this October by signing a treaty on establishing a **regional energy market, in accordance with the EC legislation**, between the EU and eight south-eastern European countries (Albania, Bosnia, Bulgaria, Croatia, Macedonia, Romania, Serbia, Kosovo, and Turkey). It is a first step toward integrating the south-eastern Europe energy market into the integrated EU market. The Athens Treaty envisages the liberalization of the regional electricity and gas markets by the year 2008.

6. Improve the relationship between energy policy, environment and research

Energy policy does not care to just ensure the power supply safety. The policy also incorporates the **environmental protection objectives**. The primary document in this respect is the so-called **Kyoto Protocol** (see below). The most significant instrument which ensures the implementation of the Kyoto Protocol is the **European Greenhouse Gas Emission Trading System**, regulated by **Directive 2003/87/EC** establishing a scheme for greenhouse gas emission allowance trading within the Community.

The system operates **as of this January**, covering some **12 thousand European energy industrial plants** and energy-intensive industries. The emission trading scheme allows the companies which exceed the CO2 emission targets to **purchase emission permits from companies with less than the target volume of emissions**. This improves a return on investment in "green" technologies as well helps the EU to comply with Kyoto Protocol limits. If a company exceeds the allowed emission and does not have a corresponding permit, the company will have to pay a **fine of €40 per each ton of emissions** (to be raised to €100 as of the year 2008). The number of permits purchased or sold by enterprises is set in the **national allocation** plan approved by the European Commission.

For the time being, the scheme includes only the emissions of **carbon dioxide CO2**, but very soon the restrictions shall apply to all greenhouse gases. Recently, there has been an intensive debate about the **inclusion of airlines** in the scheme. Although their current contribution to greenhouse gases emissions amount to 3 percent only, the share is rapidly increasing.

BOX: Kyoto Protocol:

The Kyoto Protocol to the United Nations Framework Convention on Climate Change was approved at a conference in Kyoto, Japan in December 1997. The Protocol sets emission targets for countries that have signed it and the method of implementation of emission reduction. According to the Protocol, by the end of the first check period (2008-2012) the greenhouse gas emissions should be reduced by at least 5.2 percent compared to the year 1990. Different reduction targets apply to every country. For the EU member states the target reduction is 8 percent (7 percent for the USA and 0 percent for Russia).

According to the Protocol, the greenhouse gases include carbon dioxide CO2, methane CH4, dinitrogen dioxide N2O, HFCs, PFC's and sulfur hexafluoride SF6. To come into force, the Kyoto Protocol must be ratified by at least 55 countries, whose total share in global emissions amounts to no less than 55 percent. This happened in February this year, when Russia signed the Protocol.

The energy policy is also closely **related to the research policy**. The General Directorate of the European Committee for Energy and Transport shares the responsibility for the management of the Framework Program for Research and Technological Development. The current hot topic is the support of technological development in energy industry and the increase of energy efficiency. In this context, we must draw attention to the importance of the scheduled construction of the **International Thermonuclear Experimental Reactor**, which should be able to produce energy from sea water. The reactor will be constructed in France. Apart from the EU, also Japan, the USA, Russia, China and South Korea are participating in the project. The project costs over the upcoming thirty years have been estimated at € 10 billion.

The future research in the EU energy industry shall be significantly affected by the **7th Research and Technological Development Framework Program** (RP7) which is currently in progress. The final wording of the program has not been revealed yet, as it will depend on the shape of the agreement about the seven-year perspective (2007 to 2003). The following basis priorities have been proposed for the program:

- **energy efficiency and renewable energy;**
- **clean coal technologies;**
- **treatment of nuclear waste.**

The main objective of the said program is to stimulate businesses to participate in the implementation of the European Energy policy and in the fulfillment of Kyoto Protocol commitments. At the same time, the program should help the EU industry to preserve and reinforce its **global leadership**.

The existing 6th Research and Technological Development Framework Program (RP6), which covers the period from 2002 to 2006, focuses on **renewable sources, energy efficiency and alternative fuel**, including hydrogen fuel cell.

For an overview of the legislation pertaining to EU Energy policy, please visit:
http://europa.eu.int/eur-lex/lex/cs/repert/chap_12.pdf

Česká spořitelna Services

Finesa Program – FINancing of Energy-Conservation Applications

Česká spořitelna introduces a special program for the funding of energy-conservation applications and for the construction of renewable sources of energy, created **in cooperation with the International Financial Corporation**.

Česká spořitelna offers **investment loan with a partial IFC guarantee covering up to 50 percent of the credit value**. The guarantee significantly facilitates the availability of capital for our clients, increasing their credit involvement and reducing their administrative costs pertaining to the estimation and possible acquisition of other hedging instruments.

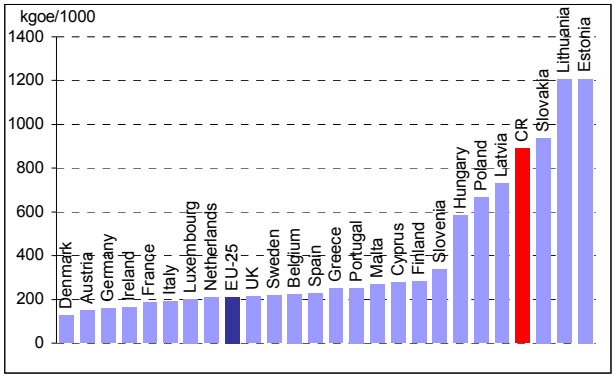
The following clients are encouraged to submit credit applications for their energy-conservation projects: industrial and agricultural enterprises, providers of energy services and energy technology providers and dealers, operators of renewable sources of energy as well as freight and public transport operators.

Energy-Conservation Projects

Projects eligible for inclusion in the Finesa Program must aim to **improve the efficiency of energy production**, distribution and consumption, for instance by installing more efficient boilers and furnaces, cogeneration units, new heat distribution systems, better thermal insulation for buildings or by replacing old windows. Other eligible projects include for instance the conversion of motor vehicles from diesel to LPG fuel.

High energy intensity of the gross domestic product is a long-standing problem of the Czech economy. Viewed from this perspective, the Czech Republic ranks among the worst member states of the EU. The Finesa Program as introduced by Česká spořitelna is a new major attempt to improve the availability of commercial funding for energy conservation projects, which concurrently aims to enhance and protect the environment.

Energy intensity of the economy in 2003
gross consumption in kg of oil equivalent per 1000 euro of GDP



Source: Eurostat; GDP in constant prices of year 1995

The most significant eligibility criteria for the acquisition of Finesa investment credit with IFC guarantee is the more efficient utilization of energy and reduction in greenhouse gas emissions. The project's compliance with the said criteria must be confirmed by an **energy audit**. Owing to our cooperation with IFC, we can assist our clients as early as in the planning stage, namely with the calculation of energy savings or project preparation. In some cases, we can even arrange a partial repayment of the costs for the energy audit.

Renewable Sources of Energy

The Finesa Program is particularly suited to construction **projects for renewable sources of energy**, i.e. projects for wind and hydro-electric power plants or biomass production and processing and biomass power plants. The market potential of renewable energy projects has been shaped by the **Czech Republic commitment to raise the overall share of the energy produced from renewable sources**. The current renewable energy production amounts to approximately one half of the target volume, including large hydro-electric power plants. The scheduled increase will be very costly, its successful implementation depending on major government subsidies provided either by means of minimum prescribed purchase prices or via various government subsidy programs (e.g. operational program Industry and Enterprise - OPIE). Pursuant to the EU regulations, the market share of renewable sources in the EU in the year 2010 should amount to at least 12 percent of the entire energy market. The EU is also expected to increase the renewable energy ratio in the subsequent years too.

Finesa Is Not Intended For

clients with gambling as their line of business or clients who manufacture and/or distribute alcoholic beverages, tobacco products and/or weapons.

When to Apply

A client who wants to apply for Finesa credit should have a well-defined funding scheme, a business plan, a feasibility study and an energy audit at his disposal. Česká spořitelna requires that the **client funds 10 to 30 percent of the total costs of the project**. The client is entitled to take a subordinate credit from ČMZRB to cover his mandatory project contribution.

The negotiations about the credit provision start with the client submitting a **high-quality business plan with a transparent funding model** for the project. Česká spořitelna and IFC will jointly execute a standard project analysis – the cost/benefit analysis, the cash-flow analysis and the business plan risk/threat analysis. The project assessment will naturally also include the analysis of the project feasibility.

To apply for the Finesa credit, the client's project must already be in the **late approval stage** and the client must have the zoning and planning decision, building permit, official opinion of the Ministry of Environment, and the preliminary consent of the power distributor allowing the client to connect to the power grid. The client should also have a contract for the delivery of the technology used, including the warranty and post-warranty servicing and maintenance. For the client to become eligible for Finesa credit, the client must also guarantee the due implementation of contractual inputs and outputs.

Legal Framework

The basic terms and conditions applicable to investors intending to build renewable sources of energy are stipulated by Act 180/2005 Coll. on the promotion of electricity production from renewable energy sources. The Energy Regulatory Office is the official public authority to set the minimum electricity purchase prices. The ERO is about to publish the purchase prices any day now, launching the implementation of renewable energy projects, whose funding and assessment has been kept up by market uncertainty about the minimum renewable electricity prices.

EU Program Business

The clients are entitled **to combine the FINESA funding from Česká spořitelna with any public subsidies** such as from the EU structural funds (Support for Energy Conservation or Utilization of Renewable Sources of Energy as a part of OPIE – see below) or from the national subsidy programs of the Czech Republic. To facilitate the access to subsidies and other forms of support, Česká spořitelna has launched a special program, titled EU Program Business.

BOX: Measure No. 2.3 of OPIE: reduction in energy intensity and better utilization of renewable sources of energy:

Support for energy conservation – this program supports projects leading to the reduction in the energy intensity of industrial production by means of energy conservation in processes related to the production, transformation and distribution of energy, introduction of new technologies for the processing of energy raw materials, introduction of combined electricity/heating production (cogeneration) etc.;

Utilization of renewable sources of energy – this program supports projects for the production of electricity or heating from renewable sources, such as projects for the construction, restoration or renovation of devices for the utilization of renewable sources, projects combining the production of electricity and heating while utilizing renewable sources of energy etc.

The EU Program Business offers comprehensive support to entrepreneurs and enterprises to help them acquire subsidies from the EU structural funds and Czech Republic state budget. The support is provided at the following three levels:

1. Information about EU Programs

Information sources about EU subsidies are still very fragmented. Businesses cannot waste time browsing through dozens of web sites or reading hundreds of documents. Česká spořitelna decided to deal with this problem by establishing an **EU Office** and by offering a **database of information** about the EU on its website (**www.csas.cz/eu**).

2. Support of Subsidy Acquisition

The subsidy application process is complicated and strenuous. The problems begin with the selection of a suitable subsidy program. As part of the so-called **investment audit**, Česká spořitelna experts will help to:

- identify the suitable subsidy program for the client's specific investment project;
- assess in all complexity and identify a possible funding structure of the investment, including the suitable subsidy program.

Česká spořitelna provides this as a free service for the investment project funding program.

The investment audit is followed and accompanied by **professional consulting services pertaining to the submission of the subsidy application or other mandatory documentation**. The consulting services are provided by Česká spořitelna subsidy Consulting ČS and its contractual partners. Consulting ČS offers:

- execution of the project documentation;
- draft of the application and all its appendices and their subsequent compilation;
- execution of the feasibility study, cost benefit analysis, analysis of the logical framework of the project and other documentation required for the submission of the application;
- organization of the selection procedure;
- other consulting services as per the client's specifications.

3. Investment Project Funding

Česká spořitelna experts arrange the co-funding of projects applying for public subsidies so as to comply with the general rules and guidelines for the subsidy policy of the structural funds. We know the precise meaning and connotations of the terms "subsidy" "deductible costs" or "other costs" of the subsidized project, which is why we are prepared to provide or arrange their funding. Česká spořitelna is therefore capable of **funding up to 100 percent of the project** in many different ways.

Some subsidy policy guidelines which affect the project funding:

1. The subsidy policy rule of the so-called **retroactive funding** allows for the payment of a subsidy only after the completion of the project or its stage.
2. Another frequent rule of various subsidy programs is that the client is obligated to demonstrate that he is **capable of funding the entire project**.

Česká spořitelna Solution:

The **bank's guarantee** serves to demonstrate to the EU that the company is ready and capable of funding the project or its stage at the time of the submission of subsidy application. Depending on the terms and conditions of the relevant subsidy program, Česká spořitelna will issue either a **binding or a non-binding guarantee**.

The project funding can be structured as follows (see below):

- In the event of a single credit for the subsidized project, the company will use the subsidy either to partially repay the debt in advance or will use the subsidy for additional investments, or
- Česká spořitelna will grant a separate bridging credit in the same amount as the subsidy, and the company will use the subsidy to repay the loan, while at the same time Česká spořitelna will also grant an additional separate credit for the subsidized project

Combination with Other Česká spořitelna Preferential Products:

Special financial products of Česká spořitelna, such as the **TOP Podnik** or **FINESA programs**, can be **combined with subsidy programs from the EU uctural funds** without any restrictions, allowing for a unique method of project funding. Entrepreneurs and enterprises thus are not restricted by the maximum sum of the subsidy or other benefits from the structural funds, as they may obtain the funding of their investment project from Česká spořitelna under particularly favorable conditions.

Case Study - Electricity with the smell of wood

Investor:

The investor is a **supplier of traditional utility and energy-saving products**. This company has a history of numerous jobs such as the delivery of boilers, heat exchanges, heat pumps, technology distribution mains, gas lines etc. After many years of development, many verification installations and long-term operating tests, the company launched a joint electricity and heating generator. The standard cogeneration unit with internal combustion runs on wood gas produced by gasification of renewable sources of energy.

Projects Overview:

The company introduced a **project for the construction of a power plant for the joint production of heat and electricity from a renewable source** – waste timber from joinery in South Moravia. Electricity is sold to the power grid and the heating is used to dry the timber and to heat the workshop. This is the first working generator of this type in the Czech Republic.

Proposed Structure of Funding:

Investment costs reached approximately CZK 6.5 million. The funding structure included:

- Company's **own funds in the amount of CZK 2.3 mil.**
- **FINESA credit from Česká spořitelna in the amount of CZK 4.2 mil. with** a 7-year maturity period, fixed interest rate and option of pre-mature repayment

Evaluation:

The company applied for a **subsidy from the operational program Industry and Enterprise, Measure 2.3, program Renewable Sources.** The subsidy was granted as the first approved support in this program.

Combining the FINESA credit from Česká spořitelna with credit warranty and subsidies from the EU funds, the company acquired the required credit funding, achieving substantial savings in project expenses.

Investment Audit Summary:

	Funding
Subsidy program	OPIE - Renewable sources
Special ČS program	EU program, FINESA program

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