

## Summary Minutes Meeting 1

### Working Group 4 'Funding instruments and double funding'

02.05.2022, 2.30 to 4.00 p.m.

#### I. Background and aim of the working group<sup>1</sup>:

The first meeting of the working group 'Funding instruments and double funding' serves to identify and prioritize topics as well as to plan further action.

#### II. Topics:

##### Relevant themes and questions regarding funding instruments inside and outside the EU

- 1) Infrastructure:** What are infrastructure requirements along the value chains? What are challenges? How can we overcome challenges?
  - Take account of geographical factors
  - Beware of "chicken and egg" situation (what comes first, production or infrastructure?). Development of adequate financing mechanism is key for both.
- 2) Risk mitigating mechanisms for production offtake:** What mechanisms are needed? What are challenges? How can we overcome challenges?
  - Mechanism should reduce risk for offtaker and producer (off take risk cannot be mitigated or transferred to other parties. The market is missing.)
  - How could a financing mechanism provide a sort of safety net for first movers?
  - How will price and volume risk mitigation look like? Will there be risk mitigation needed especially on the production side, because of the unknown development of prices on the offtake side? How to mitigate the fluctuation of the price of grey equivalent products e.g. due to the volatile price of natural gas?
  - Participants argued that support schemes/ financing mechanisms/ guarantees are needed to deal with uncertainties, risks and to overcome first mover disadvantages. Of course, business cases become interesting – especially with regard to the current market situation (prices on the gas and oil market rise) – however, it is uncertain, whether the market situation will stay on the current level. Moreover, the risk uncertainty may prevent companies from investing.
- 3) H2Global Mechanism**
  - How can we develop H2Global further? Should it be combined with a guarantee provided by the government, bringing in co-finance opportunities together with

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<sup>1</sup> The working groups' primary goal is to provide knowledge and recommendations to the public and, within the framework of its statutory purposes, to policy makers in order to support a rapid market ramp-up of green hydrogen and its derivatives. For compliance reasons, the accumulated knowledge will be published.

other governments? What about a public private approach in regards to CfD mechanism?

- Would it be an interesting route, if the public sector provides a certain first loss for the cost of difference mechanism and the private sector tops or matches this with an equivalent amount that would then be used for the H2Global mechanism?
- Is the CfD scheme the right scheme also for the next round? How to scale up-support? Challenge: Quantification of necessary support “to get market going”, e.g. foster the upscale of production and the necessary infrastructure development?

**4) Project Finance:** What is needed to finance long-term operational projects? What incentives and other support mechanisms can there be to enable financing and supporters in the construction phases prior to commissioning? What strategies are there to mitigate risks on the production side? What are challenges? How can we overcome challenges?

- There is much political and regulatory influence on the future pricing of the projects; if we are able to provide products and support which can significantly lower the risk aspect this will reduce the cost of the product. Since we are talking about CAPEX-intensive upfront investment, lowering the weighted average cost of capital (WACC) has a huge impact
- How can we structure a financing approach where the risk from the government and other political institutions is lowered, but enabling a minimum investment security to drive product costs down and thus also speed up the transformation process?
- Challenges: debt finance implications, equity finance implications. How can these risks be lowered in the absence of a liquid market for green hydrogen products?
- Important to analyse where capital is needed in the different project development phases and with regard to construction.

**5) Time frame:** When are investments needed? Where are the priorities time-wise? Do the above pillars go hand in hand? Would they be sequential?

**6)** In general, **key risk aspects** related to production and selected countries, financing options, volumes, the role of public and private capital in relation to various funding instruments have to be considered.

### III. Further procedure:

- Participants agreed that **infrastructure** is key to ensure long-term investment security, which is why infrastructure will be one of the main focal points of this working group.
- Moreover, a **questionnaire** will be developed together with the participants, helping to support the preparation of our future sessions. What are infrastructure needs and



requirements? What are challenges, experiences? What are key risk aspects that need to be considered? What instruments are used? Are there instruments missing?

- Obtain additional **input from external experts**:
  - **Overview of existing funding instruments**: How do instruments fit together and what is missing?
    - Role of public and private funding
  - **Gap Analysis** to identify clear gaps in the context of financing and investment options
- Participants are encouraged to **share concrete examples** that can be used to exemplify the challenges: What are the real hurdles? What are participants' experiences with existing CAPEX funding mechanisms? Where are they working? Where aren't they working? What can we expect as outcomes?