EU energy infrastructure plan and financial instruments: what implications?

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Context

- Unprecedent crisis in EU – financial, economic, social, political
- Crisis of accumulation – massive liquidity in private hands and “lack” of assets where to invest
- Since 1980s – progressive extraction of richness from public to private, through privatization, liberalization, PPPs in 2000s, completing liberalization of financial capital markets

Financialisation: new, pervasive phenomenon, transforming society and production, with long term implications

In the making, some elements are evident and lessons to be learnt

Need for public support – defining legislation, promoting further privatization and financial capital markets development as key to “find the money”

There is no money?

Where is the money?

2011 – liquidity managed on financial capital markets globally: $122,8 trillion

2011 – global GDP: $65 trillion

$42 trillion managed directly by individuals on behalf of 11 million “rich people”

$11-12 trillion

in tax heavens

Financialisation: what is it?

Deep transformation of the economy and society with implications in the long term

Drive: research for new and larger **asset classes**

Key element: buying and selling money, risk, and associated products guarantees **higher returns** than trading goods and services for capital accumulation

Implications: the choice on where the capital is invested exposes daily life of citizens to financial capital markets – more aspects of life are mediated through **financial capital markets**, and not simply through **markets**

What does it mean for “Energy”?

Energy corporations deeply transformed by financialisation - look to markets, shares' value..

Oil, gas, coal, solar, hydro – each of them need different “infrastructure” and imply a different set of economic and power relations

Centralised vs decentralised / large vs small / fossil fuels vs renewables are generic distinctions that need to be better defined to understand how and what we are willing to “transform” in the current economic system

...and most of them looks fine for financial markets!

EU energy policies: what infrastructure?

Energy security high on EU agenda

November 2010: Energy 2020 A strategy for competitive, sustainable and secure energy

Energy infrastructure priorities for 2020 and beyond

September 2011: *“It is evident that the EU cannot reach the EU policy objectives without adequately addressing the external dimension”*

What infrastructure?

EC – up to **2 trillion euro** by 2050 to build all the needed infrastructure within Europe in energy (TEN-E), transport (TEN-T), information and communication technology (ICT)

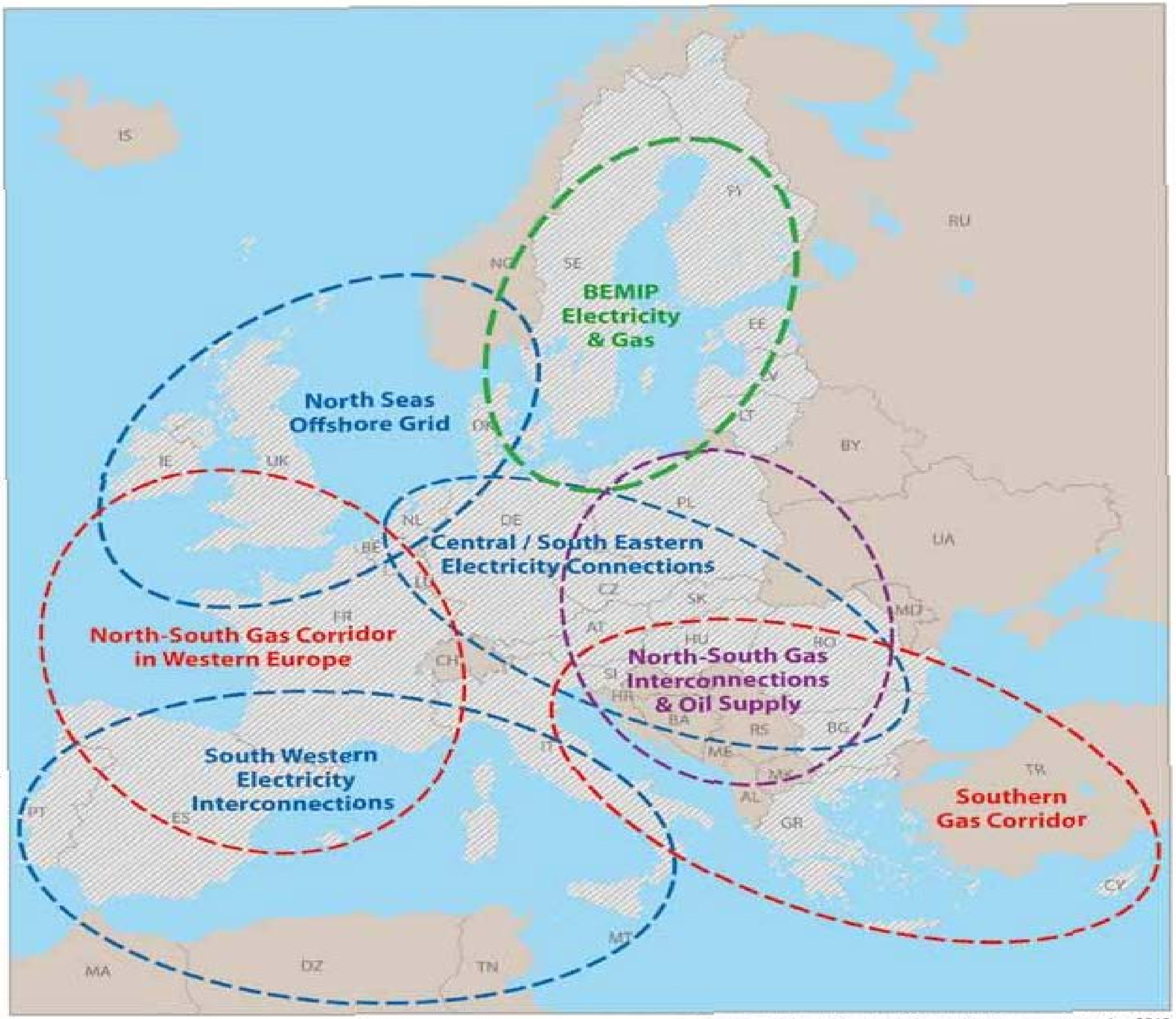
CEF – Connecting Europe Facility launched in October 2011; budget: 29.3 billion euro for “Projects of Common Interest” (5.1 billion for large scale energy projects)

“build the backbone of Europe, infrastructure that will make Europe more green, reduce energy dependendcy and complete the construction fo the internal maket”

“A coherent, dynamic and pro-active external energy policy is vital to enable the EU and its Member States to establish a lead position in energy geopolitics, to effectively promote both EU and national energy interests beyond EU borders, and to contribute to the competitiveness of the European industry”

Conclusion of the EC Communication on Engaging with Partners beyond our borders

European energy infrastructure priorities for electricity, gas and oil



- – – Gas
- – – Electricity
- – – Electricity and gas
- – – Oil and gas
- Smart Grids for Electricity in the EU

Europe 2020 project bond Initiative (PBI)/ Project Bond Credit Enhancement (PBCE)

October 2011 – Europe 2020 project bond initiative like “risk sharing” instrument to attract capital from institutional investors for the Connecting Europe Facility (CEF)

June 2012 – pilot phase launched by EIB

230 million euro from EC + 750 million euro from EIB - to mobilize <u>4,3 billion euro by 2014</u> through private and institutional investors

EIB – new instruments covering 20% or 200 million euro

Objective:

- <u>reduce the financial risk of large projects economically and financially non viable</u>, and guarantee a profit to private investors (public money for credit enhancement or improving debt situation of company and project)
- <u>support infrastructure as an asset class</u> – basis for the building of new financial markets based on infrastructure, that own them and finance them from the beginning (new generation of PPP)

New elements:

until 2009 financial risk covered through monolines insurances – and collateral financial products – now transferred to the citizens with <u>public guarantee</u> of EIB and national financial institutions (see Italian case)

improved initial rating – for the infrastructure project and for the consortium

initial liquidity for the consortium from financial capital markets on the promise that project will repay itself once operating (support to PPPs)

What about Greece?

Helios interconnector with Germany

Trans Adriatic pipeline

Large scale projects of “EU priority” - in who's interest?

Energy security or “accumulation by dispossession” - extraction of wealth from “public” into financial markets?

What implications for energy transition in Greece and in Europe?

...in case projects fail?

When the project is not repaying itself, the public guarantee transforms the debt from private into public

Massive public intervention in support to the expansion of financial capital markets

Paradox – might reduce the future economic and social freedom of citizens in case public debt will generate through fallimentary, useless mega projects

Why taking on this risk – leaving the profit on financial capital markets?

GRAZIE!

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