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WP 4: Economic and Financial Solutions
Deliverable 4.1: International Restricted Workshop
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INDECO - International Restricted Workshop
April 11th 2013 – 9 am to 5 pm

NH Hotel du Grand Sablon - Rue Bodenbroek 2
1000 Brussels

Report

Introduction

COTANCE organised in Brussels on April 11, 2013, a Workshop on access to finance for energy efficiency investments of SMEs in the European leather value chain. This Restricted Workshop was part of the activities entrusted to COTANCE in the context of the IEE project Ind Eco sponsored by the European Commission.

A total of 23 participants from industry, RTD centres, financial institutions, the European Commission and the European Parliament participated in this event that reviewed the potential of energy savings and carbon emission reductions in this sector as well as the financial tools and instruments available to enterprises in this framework.

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Euratex, the representative body of the European Textile and Clothing industry, developing a similar initiative, completed the panel of speakers.

Presentations

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Opening the event, Mr Gonzalez-Quijano, Secretary General of COTANCE provided some key figures on the European leather industry and on its importance in the EU economy. Some 24 000 enterprises in the tanning, footwear and leather-goods sector providing nearly half a million jobs in the EU generate a yearly turnover of about 31 Billion Euro of which a third in extra-EU exports. These figures constitute a cautious approximation to Europe's leather industry as they do not include all the sector's categories such as leather car interiors, leather clothing and gloves or leather furniture. After referring to the Commission Staff Working Documents issued on the fashion and high end industries and Commission Communications on industry and access to finance for EU SME's, Mr Gonzalez-Quijano summarised the recent European Central Bank Survey (April-September 2012) on access to finance for SMEs in the Euro zone which reveals that there is still room for improvement in this area.

Mr Federico Brugnoli, representing the project's lead partner, UNIC, introduced the Ind Eco project with its 16 partners and 7 participating countries. He noted that with relatively small investments in energy saving techniques/technologies, efficiencies in the sector could yield possibly up to 16.7 million in primary kWh by 2015, and with the appropriate finances, up to 771 million Primary kWh by the year 2020. The energy savings and correspondent cost savings are significant and important for improving the competitiveness of this industrial sector.

Mr Giovanni Franco, SOGESCA, technical partner in the Ind Eco project, went on explaining where and how in the industry energy savings could be achieved. A number of slides introduced the audience to European Commission forecasts of final energy demand by sector and by type of typical energy consuming activities within a number of identified industries. Although leather and footwear were not individually assessed, it was possible drawing some meaningful conclusions on the basis of related sectors. Long-term savings in the region of 40% in electricity consumption could be achieved with efficiency measures regarding compressed air, pumps, fans, etc.

Mr Francesco Ferioli, EACI Project Officer, started his presentation introducing the Intelligent Energy Europe Programme, its aims and objectives. Regarding Financing he indicated that major funding for investments in buildings, energy efficiency and renewable energy are provided via the EU structural funds, with an allocation of € 9

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billion for sustainable energy in the current programming period 2007 – 2013. Amendments enabled to reallocate up to 4% of ERDF resources per member state towards sustainable energy measures in the housing sector. Further, Intelligent Energy – Europe Programme provides, for instance, this year some € 114 million for actions tackling the existing market barriers, building the capacity, implementing the legislation or stimulating investments PLUS ELENA Facility. He underscored that "Leveraging EU funding: 1 Euro from MLEI must lead to 15 Euros invested" and presented a number of examples of other successful IEE projects.

Mr Patrice Liauzu, Representative of EIB, gave a panoramic view of EIB activities targeted on improving SME's access to credit. After commenting the instruments used under the current financing framework ending in 2013, he explained that up to EUR 40 billion additional lending for SMEs would become available in 2013 -2015 through the SME Access to Finance Initiative. Mr Liauzu listed notably the following:

- Extend range of financial intermediaries where possible, including smaller and regional banks, specialist finance providers e.g. lessors, guarantee institutions
- Increase range of risk-sharing instruments in cooperation with EIF
- Consider scope for increasing support for MidCaps
- Initiatives to increase trade finance
- EIF examining scope to increase seed and growth capital, and guarantees
- Intermediary banks and financing institutions in Europe:

http://www.eib.org/projects/priorities/sme/intermediaries/europe.htm

The morning session ended with a common networking lunch. During the afternoon several examples of good practice were highlighted.

Mr Vittorio Cossarini, representing ASSOESCO, an Italian Federation of energy service companies, explained the nature of these kind of organisations that facilitate energy intensive companies to acquire over the time the energy saving equipment that are introduced in factories in the framework of a joint initiative. In short, an ESCOs is a Technical and Financial Advisor that help implement Energy Saving Solutions, earning proportionally to the Efficiency produced and measured. The ESCo "buys" the solution and negotiates a "Contract Value" – The ESCO is the actual owner of the plant/system delivering Efficiency

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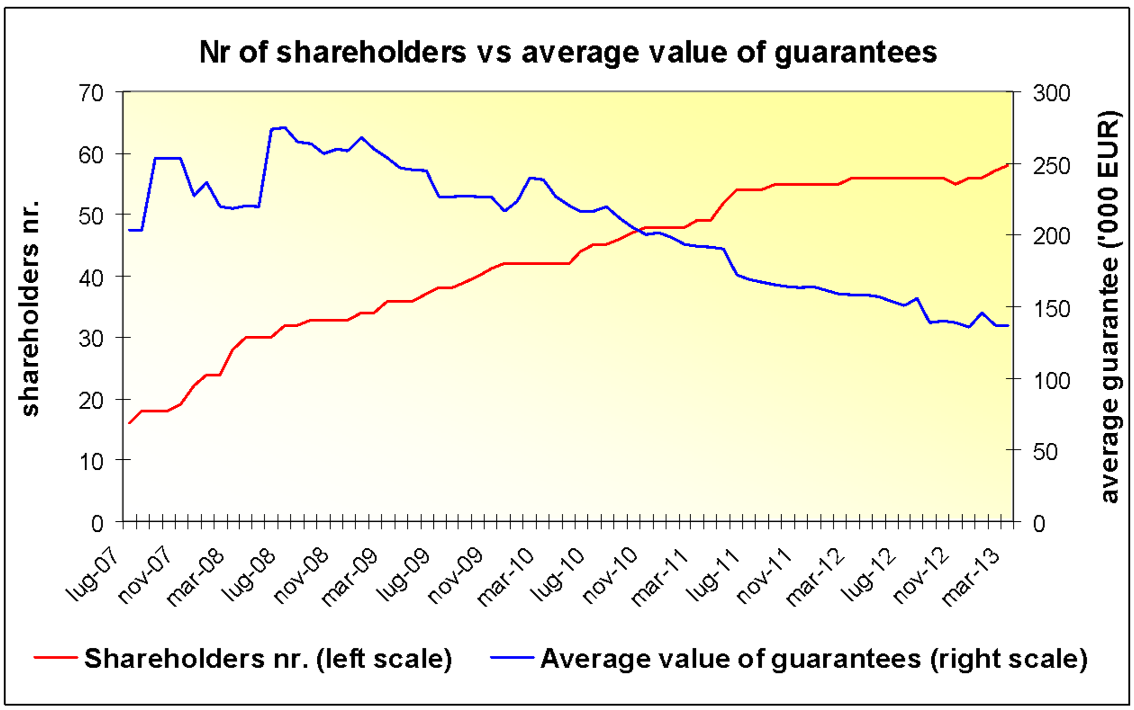
• Contract value sums up – cost of the solution, interests and O&M costs and profit – Revenue is expected
• The Client Company pays the ESCO a fee usually lower than the economic value of the produced efficiency
• As the Contract Value is paid back, the ownership of the plant/system moves to the client

Mr Daniele Rochetta, manager of LP Confidi, a leather-sector specific mutual guarantee facility set up by the Italian Tanning industry, explained its experience in the banking business since it was set up in 2006 (operational 2007).



He explained the strategic reasons for the setting up of this instrument, but also the limitations due to its legal anchorage. The facilitation of credit to the Italian leather industry has been particularly successful in the area of finances for acquisition of raw materials or in fairs participation of companies. Mr Rocchetta indicated that LO Confidi shareholders were considering extending the facility also for facilitating investments in

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energy efficiency in the framework of Ind Eco. He commented that organisations of the kind of LP Confidi were unfortunately not eligible at present for sharing risks in the EIB framework.

Mr Mauro Scaglia, Project manager at Euratex, the European Textile and Apparel Organisation concluded the programme of presentations introducing the sector's SESEC initiative. Although the SESEC project had a different objective because it does not enter into actual implementation of energy efficient investments, there are similarities in the approach notably with regard to the energy audits and training activities. Mr Scaglia explained that in the context of SESEC there were 50 sector companies directly assisted, 150 ended up using their Energy Efficiency Scheme, 350 people were directly informed and over 50 sector delegates were trained.

Conclusion

This workshop aimed at providing to project partners, industry and public and private stakeholders an overview of energy efficiency initiatives for small and medium sized leather and footwear companies and on how these could possibly get access to finance.

The leather and footwear sectors in Europe appear to be slowly re-emerging from the 2008 economic crisis. Their resilience and leadership in terms of image, quality and fashion have firmly placed them on top of the ranking of major brands and retail outlets in the most demanding markets worldwide. However, the credit crunch that currently hits the European economy and notably industry and their SMEs, acts as a significant obstacle for releasing the sector's full potential. Operators have identified access to credit in numerous occasions as the single most pressing problem in the industry. SMEs of the European leather value chain are particularly penalised because of the general perception that the industry is a traditional sector with little prospects for growth due to the increasing competition from developing countries. Banks, the main providers of loans to

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the sector's SMEs and credit institutions in general, are increasingly restricting financing or requiring higher interests and more demanding collateral conditions.

EU financial support instruments have been made available to the Banking system for SMEs, but for a number of reasons such facilities hardly reach them, or reach them at conditions that are not practicable. Apart of the systemic circumstances that make lending to industry less interesting for Banks than other type of financial operations, it is a fact that sector specific considerations also play a role in the setting of financial conditions. While the EIB facilities are well conceived at the origin, they require mandatorily the use of associated banks at national level. Hardly no EU financial instrument can be directly accessed by SMEs . Also no sector specific instruments are available which could evidence clearly the low level of liquidity provided by Banks to this important industry.

Other financial means, such as energy service companies, also fail to supply finances to the sector. The small size of the investment associated to the perceived risk of the sector makes this type of approach virtually irrelevant as a means to finance energy efficient investments.

The most promising example of credit guarantee instruments is possibly the example given by sector specific mutual guarantee operations. This successful example is, however, unlikely to be emulated throughout the EU as it requires appropriate legal provisions, strong industry representative institutions and, last but not least, a domestic sector supporting this type of instrument of a critical mass.

The EU institutions and agencies are aware of the situation and renewed efforts have been consented by the EIB for the financial framework starting next year. The EIB is actively looking at mechanisms that incentivises banks to lend to SMEs rather than to use the "cheap money" they can access for other low-risk operations.

All participants considered the Ind-Eco Workshop as a highly useful event that contributes to evidence the critical bottleneck of finances in the sustainable development of the European leather and footwear industries.

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