Summary and feedback

New Climate Economy Conference

Budapest, 25th February, 2015

The Conference was organised by the British, German and French Embassies in Budapest, the Hungarian Economic Association and the Institut Français.

The lecturers of the conference and the experts on the three panels **agreed** that it is of major importance for Hungary to boost economic growth, while implementing EU decarbonisation and climate policy objectives. Climate change is a global challenge and the financial benefits of tackling it are becoming clearer. A large number of industries are exploiting these benefits around the world. **Taking climate change seriously means a window of opportunity and high business potential for the Hungarian economy as well. The potential benefits outweigh the costs of decarbonisation and this can significantly reduce the cost of energy in the medium and long term.**

The Europe 2020 strategy sets three objectives for climate and energy policy, to be reached by 2020:

- Reducing GHG emissions by at least 20% compared to the 1990 levels
- Increasing the share of renewable energy in final energy consumption to 20% and
- Moving towards a 20% increase in energy efficiency.

Hungary, as a member of the EU, has to meet those targets as well. Although the Hungarian numbers – as published recently in Eurostat´s report - indicate that the country is on the right track towards meeting its target numbers, there is a lot more to do for the country in this respect. Regarding GHG emissions outside the ETS system Hungary´s GHG emissions fell by 21.4% compared to 2005, while the target number was 10%. Although this decrease looks to be a great achievement, the reason behind is rather the fall in industrial output as a consequence of the economic crisis. Therefore we cannot sit back and wait, but should take the necessary actions at decision making level to lead the changes necessary for the transition to a low carbon economy. If we miss this momentum we are running the risks of not being able to exploit the economic results of the new innovative technologies, and all the benefits deriving from the new climate economy while the existing carbon intensive structures would be sunk with their costs stranded. Consequently, the country will be locked

in high carbon infrastructure which is more costly to maintain and also miss an opportunity to sustain the programme of lowering consumers' energy bills.

As to the other target number, the ratio of renewables in the total energy consumption, Hungary reached 9.6% compared to its target of 14.65% in 2020. Although the renewable ratio has doubled since 2005 there is still much to do in this respect. In recent years the market experienced regulatory uncertainty, which reduced the appetite for renewable investments in Hungary. In the field of energy efficiency, Hungary still has vast opportunities: savings possibilities have to be analyzed, programs and frameworks to be created, and actions taken to implement them. The EU funding that is coming on stream in the 2014-2020 Multiannual Financial Framework, with some 700 billion HUF (2,3 billion EUR) available for energy efficiency, energy saving and decarbonisation, provide an unparalleled opportunity for the country to exploit low carbon as a driver for growth.

With this in mind, the conference recommended that the government should develop a **national roadmap** to identify and capture the potential for energy demand management, energy efficiency and other low carbon measures. Business is put off by unnecessary risk. If the government has a clear and evidence based roadmap on how low carbon measures can boost the economy, it can design the suitable policy instruments to motivate industry and business to make the necessary changes. Hungary's revised National Energy Strategy and the transposition of the Energy Efficiency Directive are a case in point. Yet, an overall economic impact assessment on all low carbon policies is still missing. This limits low carbon potential and prevents it from being mainstreamed into wider economic policy making.

Gathering of evidence should be strengthened, results and analyses should be published **in order to assist evidence based decision making.** Commitment of decision makers to implement an ambitious low carbon transition is imperative and **Hungary also needs clear, long-term policy signals in order to curtail the risks of low carbon investments**. With a right regulatory regime, reliable policies and financial intermediation in place, the intrinsic riskiness of low carbon assets may be reduced. The lower the risks of investment are felt, the lower the financing costs will be as well.

The conclusions of the conference

It was concluded by the conference that – in agreement with the NCE report - future economic growth does not have to copy the high-carbon, unevenly distributed model of the past. There is now huge potential to invest in greater efficiency, structural transformation and technological change in three key systems of the economy:

Cities are engines of economic growth. They generate around 80% of global economic output, and around 70% of global energy use and energy-related GHG emissions. As pioneering cities across the world are demonstrating, more compact and connected urban development built around mass public transport can create cities that are economically dynamic, are healthier and have lower emissions. This model has to be followed by Hungary.

Energy systems power growth in all economies. We are on the cusp of a clean energy future. Rapidly falling costs, particularly of wind and solar power, could lead renewable and other low-carbon energy sources to account for more than half of all new electricity generation over the next 15 years. **Greater investment in energy efficiency** – in

businesses, buildings and transport – has huge potential to cut and manage demand. Future developments in the Hungarian energy system very much depend on a long term, reliable energy policy. **It has three cornerstones: a reliable regulation coupled with carbon pricing and renewable pricing. We have to invest to save**: we have to take long term view instead of the present interests in the case of energy supply.

There are also **quick wins** to reach: there is a vast opportunity in Hungary to exploit in energy efficiency: in most building groups: governmental and private buildings. Hungary has great potential here given its heritage of energy wasting infrastructure and building stock from the Soviet Bloc era. And this is the area where citizens can feel the benefits relatively quickly.

Many of the panelists of the conference were of the opinion that it is imperative to raise awareness of these issues as most things will be decided in people´s minds. Therefore a change of the prevailing thinking that investing in low carbon is a cost only would be imperative. **At the present, low carbon is not considered as a potential driver of economic growth. It is mainly seen as an environmental issue that only costs money rather than an economic opportunity, which can generate new industries, lower energy bills, jobs, technological innovation and improved competitiveness. The public and the decision-makers are rarely aware of the strides the UK and China are making in decarbonisation. The EU's decarbonisation requirements are often considered as a burden only.**

Stimulating innovation in technologies, business models and social practices – 'total system innovation', as concluded by Professor Sándor Kerekes of Corvinus University - can drive economic growth while reducing emissions. Advances in digitisation, new materials, life sciences and production processes have the potential to transform markets and dramatically cut resource consumption. But technology will not automatically advance in a low-carbon direction. It requires clear policy signals, including the reduction of market and regulatory barriers to new technologies and business models, and well-targeted public expenditure. To help create the next wave of resource-efficient, low-carbon technologies, public research and development (R&D) investment in the energy sector should be significantly stepped up as the NCE report recommends. In Hungary unfortunately only an amount equal to 1.41% of GDP was spent on R&D in 2013. This shall be increased to 1.8% within 2 years, although many of the European countries aim at 3% by the year 2020. **Consistent, credible, long-term policy signals are crucial for motivating innovation and R&D as well.**

Measures taken in Hungary

This chapter illustrates the kind of measures and ideas which can be regarded as good examples for new climate economy action, but would also highlight issues that still need to be solved.

The President of Hungary, Mr. János Áder has recently established a new desk in his Office, the Office for Environmental Sustainability, with the aim of giving more weight to issues of environment and sustainability in the Hungarian society. The Office is headed by Mr. Csaba Kőrösi, who was one of our lecturers at the conference.

Climate and environmental issues belong to the Ministry for National Development Ministry, Zsolt Szabó, Secretary of State is responsible for this area. As it was highlighted in his speech, there is money available for Hungary in the EU-funded operative programmes for

energy efficiency and other type of energy savings investments. The greater part of the operative programmes has already been approved by Brussels, the Hungarian authorities work on the fine-tuning of the programmes before publishing them. This means that the **government is in a position to endorse expectations of the low carbon economy in the conditions of the individual operative programmes,** i.e. through the subsidy system the government would be able to require the fulfilment of technical parameters (investments) necessary for low carbon purposes.

Preparatory work on a number of potential schemes is also under way. One of the leading think tanks in Hungary, Századvég Economic Institute is examining these:

- Energy efficiency scheme for large companies – voluntary agreements system: the company would enter into an agreement with the state where the company would have an energy audit prepared on the basis of which energy efficiency investments will be implemented. The state would support this by granting tax benefits for a certain period of time, based on efficiency targets implemented. The financial modelling of this scheme is under way now together with a leading economic university. According to plans, 60-80 companies could be part of this mechanism, and a multiple effect is foreseen from macroeconomic point of view.

- SME energy efficiency – different scheme(s) could be elaborated for SMEs – SMEs could tender for support, the support can be in the form of direct EU subsidy and a combination of loan facilities, special financing structures, or schemes via ESCOs. These schemes must be elaborated, perhaps with technical assistance in order to look at best practices and examples, how to structure and organize the schemes, which institutions should participate, how to include banks and other financial intermediaries, regional ESCO-s for instance, etc.

- Retail (population) market – there is a financial instrument in the market place called Lakástakarék (special purpose savings for buying flats). This product can be linked with energy efficiency measures, i.e. as the product can be used not only to buy flats but also to refurbish flats, thus if certain energy saving measures are implemented during refurbishment, these would mean surplus grant to the people. Unfortunately there is no data available how much of these savings are used for refurbishment of flats, so this shall also be elaborated.

- The programme for refurbishment of panel/concrete houses should also be continued, this scheme is already well elaborated, maybe with some changes it also has to be continued.

- Special schemes should be worked out for the public sector: offices, government and municipal buildings, social, welfare and healthcare buildings – these schemes must be funded by EU operative programmes.

- The taxation policy could also be “greener” – investments in the implementation of certain energy efficiency measures could be coupled with tax savings/benefits, of course on the basis of strict criteria and with a good monitoring system in place. Another direction could be that less efficient technologies should bear higher tax burden.

- Clear policy signals should direct labelling expectations for household appliances and in the case of lighting the less effective ones than category D should bear higher tax rates for instance.

- Transportation – more stringent rules will be elaborated regarding carbon emissions.

To summarize the above policy makers should develop a roadmap for managing the necessary measures and actions. Responsible person(s) shall be nominated to coordinate the steps and manage the process. Action is required – the sooner the better.

We have to learn best practices and good examples from other countries – first of all the appropriate structures, projects should be publicised.

Low carbon finance instruments are not used (and not really known) in the Hungarian financial market. Demonstration of international best practice models and technical assistance would be helpful to rectify this knowledge gap and introduce low carbon financial instruments into practice. Although there is a lot of money available in the EU operative programmes, most of the them is based on a grant element of 30-50% of the total investment, which makes it difficult for most of the Hungarian companies to make use of the operative programmes as SMEs usually cannot finance the remaining 50-70%. They are not able to provide investment financing from own resources, not even the larger companies, not to speak about the municipalities, etc. Therefore the market requires soundly structured financing facilities, instruments, where the implementation of the low carbon targets would play a key role. (There are two good examples for such facilities, the MFFEE – Municipal Finance Facility Energy Efficiency – facility run by the EBRD between 2009 and 2013, and EIB´ energy efficiency facility, still available at present. The Growth Loan Refinancing Facility of the National Bank of Hungary had been opened from this year to SMEs. This scheme has the potential to include low carbon considerations thus mainstreaming sustainable energy use and lower energy costs into SME development). There is the risk that the EU funds will not reach the potential beneficiaries as they are not able to finance their own part. Receiving knowledge transfer and building capacities in this respect could help to absorb the EU funds on national level as well!

Similar facilities like MFFEE would help in many ways: setting clear goals in energy efficiency and savings, transparent way of operation, programmes could be organized for SMEs, municipalities, the population as well, energy efficiency targets could be managed and absorption of EU funds could be facilitated.

Our basic aim with the conference was to raise awareness of the policy and decision makers as well as of the media and the public. The conference has reached its goal; both the conference and the lecturers received high media coverage. However, it is also the organizers´ intention to take this initiative further – to help to identify the necessary action plans.