



PROJECT FINANCING, AUGUST 24

National and International Financing Instruments for H2 Projects

Hydrogen and hydrogen derivatives will play a decisive role in the transformation to climate neutrality. However, in a very crucial time for the ramp up of an international hydrogen industry, national and international financing instruments for projects play a vital role in order to reach the ambitious goals of countries like Germany and Chile. While Germany with its recently published Import Strategy tries to offer the right policy mix in order to increase investment security for H₂ production and strengthening reliable demand, Chile also seeks to facilitate the development, scaling, and commercialization of hydrogen projects with several instruments.

Germany's Import Strategy

On the 24th of July the German government published the import strategy for hydrogen and hydrogen derivatives complementing the National Hydrogen Strategy. Today Germany uses around 50-55 TWh of gray hydrogen per year in the industry. This figure is expected to double within the next five to six years to rise to between 360 – 500 TWh in 2045 plus additional 200 TWh of hydrocarbons. Five offtake sectors that drive the demand for hydrogen and derivatives in Germany being the steel industry, Basic and Petro-Chemical Industry, Shipping, Aviation and Electricity.

There are 3 main goals that Germany wants to reach within the next 5 to 10 years. First of all, to inform about H₂ import demands, targets and framework conditions. Secondly, to increase also the investment security for H₂ production and the development of import infrastructure. And lastly to explain the German Federal Government's policy mix created along the supply chain. This policy mix that addresses the entire value chain involves:

- Strengthening reliable demand
- Drive forward infrastructure development in Germany and ensure its alignment with the EU
- Establish standardized certification and product requirements to the greatest extent possible
- Supplementary promotion of the supply side
- Deepen European and international cooperation on hydrogen

- Assist international market ramp-up with targeted R&D policy

To support reliable offtake in order to create an international pull-effect there are a number of instruments. The instrument of Climate Protection Contracts is an incentive for investment into climate-friendly facilities within the energy-intensive industry, by covering the cost difference between a climate-friendly system and a conventional one over a period of 15 years (CCfD approach). An additional instrument called the Power Plant Security Act includes tendering H₂-ready gas power plant capacities in order to incentivize investments in flexible and climate-friendly power plants in Germany. Further there is Federal funding investments in production facilities with climate-friendly technologies on an industrial scale via grants. Particularly for medium-sized companies. And last but not least, the core instrument for international hydrogen procurement, H₂Global, which is intending to match and synchronize international hydrogen production with German offtake through a double-sided auction mechanism while covering the cost difference. The idea behind it is not to buy and sell hydrogen but to give price signals and gain insights about the real willingness to pay, since at the moment there is only a theoretical market. Regarding the participation in H₂Global, from the Chilean side there was interest but no binding offer has been made probably due to the fact that they do not have the required size.

For early phase projects, the program H₂Uppp, funded by the German Ministry, is supporting the hydrogen market ramp up, facilitating exchange between companies

through Public Private Partnerships (PPPs) with the support of GIZ and German Chambers of Commerce in Brazil, Chile and Colombia among others.

On the European level there are incentives with the objective to initiate the first large-scale projects of common European interest along the hydrogen value chain, via several IPCEI waves: Hy2Tech, Hy2Use, Hy2Infra, Hy2Move.

In the long run, however, the hydrogen market will have to function without subsidies. In order to ramp up the hydrogen industry a combination of different strategies, including funding, tariff schemes and regulation is needed. Quotas can be a strong incentive. For aviation, shipping and industrial use there are quotas in place. In Europe 2% of the hydrogen used in the industry have to be green by 2030.

Financial instruments in Chile – RH2

In January this year, the ambitious project “Development of Renewable Hydrogen in Chile” (RH2), funded by the European Union and the Federal Ministry for Economic Affairs and Climate Action of Germany (BMWK) and implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the Spanish Agency for International Development Cooperation (AECID), successfully announced the launch of the Financial Service Assistance (FSA).

The FSA emerges as a solution to connect green hydrogen project developers with funders, providing advisory, support, and guidance to improve the viability and financial structure of projects, as well as to present and negotiate them successfully. The FSA also aims to strengthen business, technological, logistical, and financial cooperation between the EU and Chile in the green hydrogen sector, creating learning networks, conducting studies and consultations, and supporting medium-sized projects with high impact potential. The FSA is a free, innovative, and dynamic service tailored to the specific needs of each project, offering a "custom-made suit" that will unlock financing for the development of green hydrogen in Chile.

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The service consists of four main stages:

- Support in Project Structuring: Adjusting projects by aligning the proposed structure with the funder's requirements.
- Investment Strategy Focus: Reviewing the project to ensure integrity and quality in the business risk model. This is the early phase of the project.
- Support in Accessing Project Financing: Identifying funding options for the projects and establishing action lines to enable access.
- Support in the Transactional Stage of the Project: Covering pre-financing issues as well as specific agreements.

The FSA is not only associated with German companies present in the local market and interested companies can apply starting from mid-March 2024. The program is oriented towards projects with financing needs at a more advanced stage and the expected duration is between 6 to 9 months. However, projects in earlier or initial stages can also receive feedback with technical and feasibility considerations so they can have guidance to progress and later enter the financial assistance program.

Financial instruments in Chile – CORFO

The Chilean economic development agency (CORFO) seeks to facilitate the development, scaling, and commercialization of hydrogen projects in three ways, including financing and investment, technological development and adaptation and the right legal framework to speed up the evaluation of projects, norms, standards and regulations. Regarding the financing, CORFO plans to set up a one billion US dollar fund in collaboration with the world bank, KfW, BID and the European investment bank. The fund is supposed to be open for applications at the end of this year.

The goal is to incentivize local demand and to implement as much of the value chain in Chile as possible, including for instance the manufacturing of electrolyzers.

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