

Transcript

Heimo Scheuch Podcast, Episode 31

Guest: Eila Kreivi, Director and Head of Capital Markets, EIB European Investment Bank

00:00:03 Heimo Scheuch

Ladies and gentlemen, welcome to my podcast. I'm Heimo Scheuch, the CEO of wienerberger and today I have the pleasure to have somebody very special with me. Special for a couple of reasons: first of all, I confessed a little earlier, that I love Finland and I've just been there over the weekend and it's a lovely country and I heard that you moved away quite some time but we will come to Finland in a minute and obviously also from financing perspective because a lot of things are changing around us and Eila, you are a Senior Advisor to the European Central Bank and Investment Bank, I'm sorry to the Central Investment Bank and you have seen a lot of changes in the financing sector so it will be passionate to talk about this with you. Welcome!

00:00:53 Eila Kreivi

Thank very much for the invitation!

00:00:55 Heimo Scheuch

You know I thought I'm going to ask you something different. Today we have all the union members of our European Unions here in Vienna. They are discussing about the future and what's happening, and they are representing our workers. We have more than 20,000 working for us in different countries and obviously they are very concerned about the future. They see what's happening, not only obviously in the construction sector with a lot of difficult elements, financing,.. there's not enough sort of help to steer the sector. Construction is very weak in Germany but also in other countries as you know and so they are, they have a lot of fear what's happening and so I think I wanted to ask you a little provoking question if I may at this at the beginning: Are we doing enough or is the EU or is.. are the European institutions doing enough to give back confidence to the market?

00:02:00 Eila Kreivi

That's a very good question and I think, I don't think you can do too much on that front first of all and I don't think that even what is being done is not always heard, I don't, I'm not sure the channels are right, but if you work in construction, in principle I think there is a lot more work ahead, so it's not that the people need to go unemployed if you work in this this sector. If we talk about all the sustainability and climate agenda and all of that, buildings and real estate are a very big consumer of energy and also source of carbon emissions, so when we talk about energy, I think the first step is always: before we talk about how we generate energy, where we buy it, where we get it from is, that we should save it. And energy efficiency is such a big thing and I have to say that, for example, in.. I'm from Finland indeed, as you as you referred to and there between this winter and the last winter the energy consumption went down 10% and this was not because people went to live in caves, or the factory stopped working done I think mostly by people being a bit more conscious and also um starting to install heat pumps. They were sold out everywhere, they were reducing the temperatures and, and you could see that just by very simple measures before you even spend a lot of money, you can save a lot of energy and you in your energy bill as well. So I think this this is one of the key

Transcript

Heimo Scheuch Podcast, Episode 31

Guest: Eila Kreivi, Director and Head of Capital Markets, EIB European Investment Bank

sectors to do what we need to do and one always hears how much money we need to spend but I don't like the word "spend" because this is investing. You,.. either you create a cash flow by investing or you create savings in the future - this is about the latter mostly. So it's not something that you should see as spending, like buying something, you are investing in order to save money in the future, so I would like to give assurances, that this is a good sector to be, in there is a lot to do and a lot more work to do. It doesn't of course apply on every place and for every person, but in the bigger picture this is one of the key sectors.

00:04:19 Heimo Scheuch

I think all of my more than 50 delegates who are sitting next to us in another room they would agree with you. However, on the ground the picture is a little different as you know. I think, we.., when we look at renovation, new build and infrastructure in Europe, in the old continent, if I may say so, we are far behind with renovation rates. You remember that the commission said 3% renovation rate a year; we get barely to 1% or a little bit above 1%, so actually there's a lot more to do and also in the new build - when I talk with people here in Austria, but also Germany, but also other countries, there's a lack of apartments, there's a lack of living space and affordability becomes a big issue..

00:05:04 Eila Kreivi

Yes!

00:05:05 Heimo Scheuch

So I think it is really important that we keep an emphasis on the construction, renovation and infrastructure sector by financing it, by providing long-term financing because otherwise we fall behind and what I see also, just to alert you to one aspect, skilled labor, because obviously young people shy away from a sector that is very cyclical because they don't know if they have a job tomorrow.

00:05:33 Eila Kreivi

Indeed!

00:05:34 Heimo Scheuch

Yeah and I would say even if you from a, from a financial sector and with your background in capital markets and financing I think you would agree with me even if provide the tools and the means, the politicians need to follow and they need to lead the way, because if we want to create a modern, a Europe that shows the way in the transition of, what you say from old energy to new energy, and also in our way, how we live together in society, we need to be bold. We need to be actually strong in doing something and not weak.

00:06:16 Eila Kreivi

I totally agree and if I, if I were to be flippant, which I really am, one could say that stop using or spending money on subsidies of fossil fuels and use the money on subsidies on the transition, which we need to do, that is money much more wisely spent and of

Transcript

Heimo Scheuch Podcast, Episode 31

Guest: Eila Kreivi, Director and Head of Capital Markets, EIB European Investment Bank

course the uh the sudden appearance of inflation and the interest rate shooting up all of a sudden quite strongly it hasn't helped because construction also quite capital heavy, so um that has stopped in many places just construction, totally.. So we need to see at least a stabilization, so that one can calculate, make reliable calculations of what it is and what you can afford and what you can't. And, and and that is the first step that we need to see. I'm not sure we are there quite yet. People are now already talking about interest rates decreases or cuts by the ECB in second half of 24, um with Economists everything is always 6 to 12 months away, but I think we need to see, that at least at the level of talk, there's a stabilization, that - okay we are, maybe have peaked and maybe we next direction will be downwards - um - so it comes from many different sources so I think we need to see that one first.

00:07:37 Heimo Scheuch

I do agree that obviously from the rhetoric it has changed. However, you know when in a sector like construction, it's a lead time of 6 to 12 months with projects. So actually, what you can say, 2024 is already a very difficult year because no projects are put together. People have problems of financing so we will have again a very tough and - call it a transition year - in front of us, but I think we need, and this is I think industry, policy makers and you from the financing side, give the confidence that investing is the right thing in the future. Because everybody has been so obsessed by low interest rates..

00:08:22 Eila Kreivi

Yes!

00:08:23 Heimo Scheuch

Yeah and it's very difficult to adjust to the new world. It takes time and obviously the rise has been brutal for some and then the whole sector has not been prepared for it.

00:08:35 Eila Kreivi

Yes! And of course, also on the client side, because it's not only the construction companies, but if you are selling for example just houses or apartments to customers, they will also have to make their new calculations. "Oh my goodness, my mortgage is not 0%, it's actually 5%". And that puts a lot of breaks into this, so it's a whole chain of events and everybody needs to be convinced that this is now the thing to do, but on the other hand this kind of things just take a little bit of stability. People needing smaller apartments or bigger apartments, having a family growing, family moving out of the house, this happens everywhere for all,.. for everybody. And commercial companies will also need better spaces, maybe further away, maybe closer to the center, all of this.. So the need doesn't go away. It's a very natural need, so it will come back, but I think we are just now in the phase where everybody had a sticker shock about what happened and we need to wait. So it..it's a it's maybe a bit cold comfort for the construction companies, but the whole, the actual need doesn't go anywhere.

00:09:49 Heimo Scheuch

Transcript

Heimo Scheuch Podcast, Episode 31

Guest: Eila Kreivi, Director and Head of Capital Markets, EIB European Investment Bank

Correct, I agree! You mentioned earlier when you talked about Finland, that people used less energy and energy savings is obviously a very important subject. I agree and also us from industry, we obviously optimize as much as we can and do that, but are we incentivizing enough in Europe? People, industries, all sectors, or are just,.. is it too much talk? What is your opinion on this?

00:10:17 Eila Kreivi

Uh.. I don't think we are and things happen quite of kind of quickly and energy is a it's a very difficult sector, like I said. When we talk about energy, first thing is that you have to save energy. We, we used, we were used to some abundances. We had to produce more energy through cleaner means and also through - how should I say - local and independent means, which is, which are two good reasons in addition to the climate, which I think renewable energy through, for example, wind and solar is is great, because they are produced locally. They don't come from half the world away and they are also independent. There is no dictator anywhere - I'm not thinking about any particular direction, who can shut off the wind or the sun. They are freely and democratically available and the good thing about such energy sources is, that once you have built it, the fuel is pretty much free. And yes you have days when it doesn't,.. there's no wind or there's no sun, but we have that with every form of energy. We have days when gas doesn't flow, we have days when nuclear atoms do not collide and I think this whole idea of base load, which is always available at cheap prices, we can let go of that. We have to go into electrification and storage of energy. Storage is the new baseload, that's, if I want to be a bit - um - take a shortcut there. So I think this this is something that we need to - um - understand and do and also diversify the sources of energy. I was telling, I was talking this morning to my colleague, who is the head of the Vienna office of EIB, and I said that in Finland, for example, we have a fairly good energy mix nowadays. We have quite a lot of both wind and nuclear and then we have a lot of hydro - so has Sweden with whom we have a very fluent market between the two of, the two countries, and then you have some other forms of energy as well and the cost for me as a consumer there in my electricity contract is 11 cents per kilowatt hour - and I don't even have a particularly good contract. And it's fixed price for 2 years. And that is quite a good price compared to most countries in the continent, but that has to do I think with the mix that it's not dependent on one source and also it's pretty domestic the sources, where it comes from, so..

00:12:41 Heimo Scheuch

May I just interrupt in this and this is I think a very important example that you use here. It shows that obviously this subject is a very regional or national subject, because as you correctly say, you see a lot of difference between different countries in the EU.

00:12:57 Eila Kreivi

Yes, indeed!

00:12:58 Heimo Scheuch

Transcript

Heimo Scheuch Podcast, Episode 31

Guest: Eila Kreivi, Director and Head of Capital Markets, EIB European Investment Bank

Some have prepared well, some look ahead and some are not ready yet. Yes! And therefore I think the risk that we have also in the European Union is distortion of competition because obviously some countries that are much more uh forward-looking, have invested and provide much cheaper energy to industry, to the to the individuals etc. and to get to a better, sort of energy sourcing and availability, it's a long way in certain other countries, as you know.

00:13:29 Eila Kreivi

Yes, yes, it is and of course I mean circumstances are not the same. I'm not saying only that Finland was very clever. They were all very lucky actually. Well, we have a,.. we are not a densely populated country, so if you want to build onshore wind, there's plenty of space. If you want to build offshore wind, we have a long coastline. We have hydro, which is natural resource, which either you have it or you don't have. So it's not that everybody has the same circumstances, I mean it it depends.

00:13:55 Heimo Scheuch

But you also decided deliberately on nuclear power, to be honest, to have a certain base sort of availability of electricity.

00:14:04 Eila Kreivi

Yes, there we were purely lucky, because the last nuclear power station which was 13 years late in starting operations, it started operations in spring 2022, so if that wasn't luck, I don't know what was. So uh.. and that that is now producing, I don't know, some.. depending on the day, between 15 and 30% of the energy or the electricity. So that was more in the luck, but the decision was made almost 20 years ago - obviously in in a very different world. And there was some years ago there was another decision taken, but that was supposed to be provided by Ross Atom and that was abandoned obviously a couple of years ago. So luck is also an element in these, but I think it's the, the diversity that it's not dependent on one source only and I think that is the good thing. And I could see, that this had started after the 1990s, when Soviet Union collapsed and we had a very tough time with the trade collapsing almost overnight, that it has been diversified pretty quietly and I think that is a thing, because let's say for example we have France who has a very um big part of electricity produced by nuclear power, which has often worked well, but then in summer 22 half of the capacity was down due to technical problems, due to uh cooling water being too warm in the rivers,.. and what have you and they became, instead of being the largest exporter of electricity they became the largest importer of electricity in a very short time frame. So and that I think just shows that whatever your energy source is, diversification is the key, because any one source can have a problem, which is a black swan, that we haven't really thought about today, so I would really say like in many other aspects of life, diversity is really a key and diversity and then also, let's not forget that we need to have good grids. In Finland for example they said, well we have so many uh wind uh projects now ongoing that the grid company is getting worried, that the grid doesn't have the capacity you need to have that. You need to have connectivity between your neighbor countries, that's also very key because this adds to the diversity and also the risk of if you have a good weather, I

Transcript

Heimo Scheuch Podcast, Episode 31

Guest: Eila Kreivi, Director and Head of Capital Markets, EIB European Investment Bank

have a bad weather or vice versa, and we can share the risk. So all,.. the whole chain needs to be, needs to be updated and and diversified.

00:16:35 Heimo Scheuch

But you see when I discuss with you, we are in agreement on those things: Diversity, a very key to everything, but interesting enough you mentioned the Black Swan. Apparently, the Black Swan only comes when there's a crisis. You mentioned the French situation, you mentioned your situation or now the Ukraine war, yeah? And apparently, we are not ready yet in Europe to really do things deliberately long term. Yeah, we always need a crisis to move. Yes, yes! Which is a shame, by the way, yeah? And then the second one is, where you correctly point out, the grid. We run in in Europe alone probably 200 production sites and you can imagine what problems we have with the grid. Yes! We could electrify tomorrow. But we don't have the capacity. Yeah and therefore when you talk to ministers, to policy makers, yeah they say, well it's very difficult, neighbor rights, all sorts of issues, and then also the financing for those..

00:17:36 Eila Kreivi

Yes, indeed! The finances, I can confirm of the EIB finances, all of this very happily, so that's our bread and butter and also we have very good experts there who can say that okay this you can by the way improve a little bit like there and this, you can improve there uh to be more efficient and so on, but no I think you're absolutely right. People don't they look at the very narrow scope of their own location and not verifying the future I'm afraid either.

00:18:00 Heimo Scheuch

So what we can give as a positive sentiment to our listeners today is, there's financing available.

00:18:07 Eila Kreivi

Absolutely!

00:18:08 Heimo Scheuch

There are the means, we need the good project and we need to think more in diverse terms; energy locally available, as you say and and, sort of boost this and obviously invest more in the grid. So I would say,.. is there something like biogas, that is also on your agenda or you see this as a not as a real alternative? You are more electricity driven or is it some other resources as well?

00:18:36 Eila Kreivi

Well, we can look at anything, we have also said that we will look into hydrogen - I mean it's not very financially uh sort of scalable yet for example another thing that we are financing, which is not financially yet scalable, is a floating wind offshore floating wind, we have financed something in Portugal, we are looking at things in France and Spain, I believe. But it's something that we think that it could be a big thing, uh if it becomes scalable, it can be a big source just like 30 years ago offshore wind in general was a risky

Transcript

Heimo Scheuch Podcast, Episode 31

Guest: Eila Kreivi, Director and Head of Capital Markets, EIB European Investment Bank

thing. We went in there and nowadays it's a, you know, perfectly uh financeable even by the private sector, so you need to, you need to support the new technology. Sometimes you win, sometimes you lose, we also have supported the new battery technology, the Giga Factory in Sweden, um and that, I think the public money is is that's the way we see, that the public money needs to go to these places, where the new technologies, where the private sector is a little bit shy to take the risk, so we can support it. We have different risk sharing mechanisms - also with the with the member states of the European commission with EU. And it can be more widely spread the risk, and uh some people say, that the public sector or the government should not be picking winners and losers. We are not picking winners and losers, the only thing we do is to avoid the sure losers and that's I think...

00:20:03 Heimo Scheuch

And that's, comforting if you say that yeah! One question in this sense and you mentioned also storage of energy. Are we doing enough in Europe on storage right now or on really pushing the research and developing?

00:20:15 Eila Kreivi

Yeah I think not. Not enough, I think we need to do more obviously when we talk about storage, we talk about batteries, well hydrogen as well, but you know, but when we talk about batteries, then there's a crucial question of the minerals and then it gets into a whole new level, that, the discussion we I think we need to sort out that thing first. If my understanding is correct is, that well there's one question of who has got access to the minerals, of who has got them in their..in the country, but also it's the processing of those minerals, which is very toxic as a process, and that's something that Europeans have not liked to do, so we need to resolve this question as well. We can't be uh, I'm not saying, that all trade has to stop and everything needs to be homemade, but you can't have huge dependencies on very crucial areas. So we need to, we need to sort that one out first but this is one of the reasons we probably aren't doing enough.

00:21:12 Heimo Scheuch

May I come back to my initial question and if I look at - um - a lot of people around Europe and workers in factories and others.. affordability becomes a real issue, yeah? And having enough money for your life and energy has becoming outrageously expensive in certain countries. Are we doing, or are policy makers or other decision makers wanting a change too fast? Are we driving this too fast? Are we not thinking about the social inclusion or the cohesion enough?

00:21:46 Eila Kreivi

The social inclusion, and as it's called just transition, it's a, I think everybody agrees, that the transition needs to be just otherwise we are going to have even bigger problems. The thing is that it's so multifaceted as a problem. It's one thing in one place and it's something else in another place and how to do it, how to tackle it, I have not seen one single solution which is but it needs to be taken. Usually what one thinks about is that let's say that in somewhere in rural Romania we need to close a coal mine and then

Transcript

Heimo Scheuch Podcast, Episode 31

Guest: Eila Kreivi, Director and Head of Capital Markets, EIB European Investment Bank

what happens? But this is not only about the coal mines and have finding new job for these people. If they want to stay there, you need to maybe build better roads, maybe have a school, maybe have teachers, maybe have other infrastructure, so it's it's like a mushroom, that just keeps growing. And and it's a, it's on a massive societal scale, but we need to tackle it, but also I think it's something that it's quite a new concept. When we thought about digitalization and the phone technology, going from landlines, going into mobile technology; nobody was very worried about people, who are doing, whose job and livelihood tied for example to the old technologies. Nobody has been very much worried about that, but here we are. And I think it's rightly so, but it's always a question that you have to think about. What do you do with the people, who are doing or were doing analogical thing and now everything is digital? What happened with them? Where are they? Are they now the people who are in the streets, who are marching, so..

00:23:25 Heimo Scheuch

That's a very interesting issue, that you mentioned, because obviously you always have the risk that you leave people behind..

00:23:32 Eila Kreivi

Exactly!

00:23:33 Heimo Scheuch

Yeah and also in the country you come from or our country and others, you have more and more extremists on both sides.

00:23:39 Eila Kreivi

Precisely!

00:23:40 Heimo Scheuch

Yeah, but I think the risk here and where we need to be careful, that we don't leave too many people behind.

00:23:47 Eila Kreivi

Exactly!

00:23:48 Heimo Scheuch

And to make somebody understand, that the transition is necessary, who can't afford it, that's the critical one.

00:23:55 Eila Kreivi

Precisely, yes!

00:23:56 Heimo Scheuch

So from a financing and when we talk about sustainability, if I may suggest something. One should put this also on the agenda. Indeed! Because when you finance big projects around Europe, it's not financing only energy companies or industries but also that, not to forget the people at the end of the day.

Transcript

Heimo Scheuch Podcast, Episode 31

Guest: Eila Kreivi, Director and Head of Capital Markets, EIB European Investment Bank

00:24:16 Eila Kreivi

Yes! Yeah? No, no, this is this is very important and it needs to come into each decision. Not only by us, but by everybody - all the financial sector and of course companies and even governments, because this.. if we don't do a trust transition, we don't have a transition or we are transitioning into totally different place, than we thought.

00:24:38 Heimo Scheuch

And there's one other thing, if I may - a little suggestion and, on a private note, or company note, if you may say so - we have issued a sustainability linked bond wienerberger. The first one in our history, about 350 million euros. It went very well and we have clear KPIs linked to it, so it's very fine I'm very happy. However, what I would suggest is to reward companies, that have tough KPIs even more. You know that in this interest rates you have a potential step up, if you don't get to the targets? Yes! I would suggest a step down, if you outperform. That could be also an interesting option for companies to invest more - just saying that.

00:25:20 Eila Kreivi

I totally agree with you on that and then, I mean EIB has not does not has not done SLBs, just because you have to be an end user of the money. I mean it's very hard to commit on somebody else's behalf and our own emissions for example. It's,.. it's minor. So and I think that has been discussed in the public and between sort of investors and issuers and think tanks and what have you. It always comes down to the same point: investors are not interested in products, which may have a step down. Although it should be, because you think if you have a step down it means that the KPIs were reached - or even exceeded. Yes! So that would be logical, but we are not quite there yet, so one has to talk to the big money also to get them to walk their talk basically.

00:26:08 Heimo Scheuch

Exactly! And this is,.. you're read you're reading my mind!! Walk their talk! Because they're saying one thing and actually then comes in the material aspect to say, actually it's about the money making, yeah - to be honest? It's not really about ESG.

00:26:23 Eila Kreivi

I know, it's it's about getting the.. either get this or I get better..

00:26:29 Heimo Scheuch

Exactly, yeah and this would be a a sort of next round of discussions, where we can get this closer to the investors and saying, listen if our the companies make a huge contribution. Yes! Why not?

00:26:41 Eila Kreivi

Why not? No, I agree with you there.

00:26:42 Heimo Scheuch

And one other thing which I would like to provide you with, a thought is, we have great technology in Europe. And when I look at industries and you know I'm a lot in Brussels as well with construction materials. We are not good enough in providing this and technology to other countries, to other continents. Yes! We could do more. For example, to launch an initiative out of Europe to finance transition outside Europe, because it has a huge impact on climate, huge impact if we were to do that, so just suggesting when

Transcript

Heimo Scheuch Podcast, Episode 31

Guest: Eila Kreivi, Director and Head of Capital Markets, EIB European Investment Bank

talking to the decision makers, that would be good for our exports, good for our economies and good for the world.

00:27:25 Eila Kreivi

Yes! No, no and I think that the.. those good solutions, they will be in demand also. Of course always a question of money- everything is usually, but I think it's it is something that will become a little bit more widespread also because I'm a big believer that this Brussels impact or Brussels effect. I.e. we have a strict regulation in Europe, for example in the sustainable finances, this is now developing as well, and people will always complain that this is difficult and complex, but at the end they actually do want to look good. That's inbuilt somehow in all of us and businesses or companies who do business for example outside EU or banks who finance business outside EU; if they can say that, well we have used this best, or our client has used the best technology and we have reduced carbon emissions so and so much in whichever other country, um that will look good for them, so I think, I mean this doesn't happen over night and I don't, I can't say which scale it will happen, but I think the movement is to that direction. I usually say that the train has left a station. We know where it's going, which direction, we don't know how fast, how many stops it will do, but it's not going back.

00:28:43 Heimo Scheuch

Yes, exactly! Thank you very much for joining me, it was passionate to talk with you and I must say also after a weekend in Finland, it's a beautiful country and not only for the lakes and the forests, that I love it but also for the pragmatism and the sort of calm how your people do things and they do it in a very nice way, yeah? And it seems relaxed, but they are very conscious what they want and do it in a in a way for us southern European ones and Austrians are more to the South.. we it tends to be longer or whatever, but it's very well reflected and I think we we could learn more from you and not for nothing, you are among the happiest people in the world.

00:29:27 Eila Kreivi

That has surprised everybody!

00:29:31 Heimo Scheuch

It has! Not me actually yeah?

00:29:33 Eila Kreivi

But thank you very much and I'm happy that you liked, it's good to hear!

00:29:36 Heimo Scheuch

Yeah I do, I do go every year a couple of times and we have good and strong operations in Finland, so we are very happy up there. Kiitos!

00:29:43 Eila Kreivi

Kiitos!

00:29:44 Heimo Scheuch

Thank you very much for listening!