

Carbon Finance: EIB and Kyoto Mechanisms

T@W - Business opportunities for Sustainable Energy Technologies in Asia

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Table of Content

1. EIB and the policy context

2. Lending in Asia

3. Carbon funds

THE EUROPEAN INVESTMENT BANK



The European Union's financing institution ...

- Created by the Treaty of Rome in 1958, to provide long-term finance for projects implementing the EU's policies
- Subscribed capital: € 164.8 bn
- EIB shareholders: 27 Member States of the European Union
- AAA issuer – in 2007 € 54.7 bn in 23 currencies
- EIB's annual lending (2007): € 47.8 bn

ENERGY AND ENVIRONMENT: EU POLICY CONTEXT



Environmental sustainability

- Energy accounts for 80% of greenhouse gas emissions in the EU (European Environment Agency)
- EU Commitment: 20% reduction of GHG emissions by 2020 compared to 1990
- EU target: Renewable Energy to account for 20% of EU energy mix by 2020 (up from less than 7% in 2005)

Security of supply

- Diversification of energy sources
- Securing geographical diversification

Lisbon Agenda

- Employment and competitiveness in the low carbon economy

SUSTAINABLE, COMPETITIVE AND SECURE ENERGY

- Priority areas:
 - Renewable energy
 - Energy efficiency
 - Research, development and innovation
 - Diversification and security of internal supply
 - External energy security and economic development
- In 2007 direct energy related loans of EUR 6.8 bn of which:
 - €2.1 billion to renewable energy projects

FINANCIAL INSTRUMENTS FOR SUSTAINABLE ENERGY – CLIMATE CHANGE



- Attractive financing
 - up to 75% of project cost, longer grace periods and maturities
 - eligible projects including: renewable energy and energy efficiency projects, carbon capture and storage and land use change, notably sustainable forestry
- Climate Change Technical Assistance Facility (CCTAF)
 - A €5 million TA facility to cover carbon crediting activities of projects expected to be financed by the EIB
 - Conditional funding –reimbursable on successful registration of carbon credits meeting requirements of Kyoto Protocol

Table of Content

1. EIB and the policy context
2. Lending in Asia
3. Carbon funds

The European Council - EIB Mandate: 2007-2013

- Up to EUR 1 bn to Asia
- Projects with an interest for host country and for the EU

Energy Sustainability Facility (no EU interest required)

- To supplement the Mandate, the EIB has established in June 2007 a EUR 3 bn Facility for Energy Sustainability and Security of Supply (ESF)
- Includes environmental sustainability such as protection of biodiversity, sustainable use of natural resources, enhancing urban environment

Lending In Asia: Examples

- China Climate Change Framework Loan (EUR 500 m)
 - Large-scale multi-investment scheme to support several individual projects contributing to avoidance / reduction of greenhouse gas emissions
 - It will be supporting the China-EU Action Plan on Energy Efficiency and Renewable Energies and the China-EU Action Plan on Clean Coal Targeting projects in the energy and industrial sectors
- Nam Theun Hydroelectric project (Laos) (EUR 42m)
 - Supply large amounts of renewable power on a continuous basis (not requiring subsidies) for export to the growing and energy-needing economy of Thailand

Table of Content

1. EIB and the policy context
2. Lending in Asia
3. Carbon funds

CARBON FUNDS

- Multilateral Carbon Credit Fund (MCCF)
- Carbon Fund for Europe (CFE)
- EIB/KfW Carbon Purchase Programme
- Post 2012 Carbon Fund

MULTILATERAL CARBON CREDIT FUND



- Joint cooperation of EBRD and EIB
- 6 Sovereign and 6 private participants
- Project fund EUR 150 m
 - Purchase of project-based Carbon Credits (EU Allowances, CER, ERU)
 - Carbon Managers responsible for carbon development, purchase structuring, negotiation and signing
 - Sellers
 - Located in a country in transition
 - Financed by either EBRD or EIB
- Green Fund (EUR 40 m)
 - Facilitate Green Investment Schemes
 - Commitments from Spain and Ireland

CARBON FUND FOR EUROPE



- Trust fund established by the World Bank in partnership with EIB
- Fund will purchase greenhouse gas emission reductions through Kyoto CDM and JI mechanisms
- Eligible projects from either bank's portfolio or standalone projects
- First tranche of €50 million subscribed with 4 sovereign and 1 private participant
- *Can source credits from Asian projects*

- A purchase programme for project-based emission certificates according to flexible mechanisms of the Kyoto Protocol
- Focus on enabling EU based SMEs to access the carbon market for voluntary or statutory compliance purposes
- Significantly extends the carbon market to players normally excluded due to limited purchasing requirement and lower credit standing
- Transaction volume normally a minimum of 150,000 t CO₂e up to 2012
- Advance payments available for certain projects
- *Can source credits from Asian projects*

POST 2012 CARBON FUND



- EIB leading development with other IFIs and national development agencies (Public banks – EIB, KfW (Germany), ICO (Spain), Nordic Investment Bank)
- First closing with EUR 125 million, of which EUR 50 m (EIB)
- Independent Fund Manager appointment to be confirmed
- Would address current gap in carbon market relating to post 2012 uncertainty: ERPAs for post 2012 credits from projects which will also deliver credits in ETS phase 2 period
- Fund would acquire post 2012 credits only, thus extending revenue stream of environmentally beneficial projects
- Banks would take risk of non development of market after 2012
- *Will be able to source credits from Asian projects*