For the Attention of:  

Adrian Aupperle  
European Investment Bank  
98-100, boulevard Konrad Adenauer  
L-2950 Luxembourg  
Grand-Duché du Luxembourg

Subject: Policy consultation on EIB’s lending policy  
Date: 20/12/2012

Context

We are writing with reference to the call for public views in the Consultation Paper in relation to EIB’s Energy Sector Lending Policy. We gladly take this opportunity to participate in this consultation process and share our views as requested.

As context of our feedback, we would like to introduce our business model. Our company is a captive renewable energy infrastructure fund with currently circa €1.2bn of renewable energy generation assets under management. We target what we perceive as mature technologies (onshore wind, solar photovoltaics, combustion-based biomass and small-scale hydropower) in the EU-27. As long term investors, we pursue a buy-and-hold strategy. Finally, because of the capital intensity of renewable energy projects, non-recourse project finance loans are essential to fund our projects and to reach the returns required by our investors.

Our interests are aligned with those of EIB: EU policies (such as the EU 20-20-20 targets) led to changes in national energy policy supporting the build-out of renewable energy capacity across the EU and we demonstrate that investing in renewable energy provides competitive returns.

As such, we would like to offer our views on the renewables sector from a sponsor’s perspective.

In relation to the questions raised specifically, we would like to comment as follows.
Is the economic approach by EIB perceived as relevant? Are there alternative justifications?

We believe that the Bank’s economic approach is relevant and adds value. Decreasing costs in Renewable Energy production can mainly be expected to occur only as a result of scale economies. Grid parity will be achieved sooner if the costs of renewables continue to fall, and the costs of conventional (and new-built nuclear) energies continue to rise as our forecasts show— all the more that traditional energies price do not include yet full carbon costs. Furthermore, the allocation of the associated costs to the end consumers is appropriate in our view, as they will benefit both from low carbon electricity generation and from lower energy prices in the long run (i.e. beyond grid parity). EIB’s approach to support participants in the sector both with lending and equity support can contribute to overcome tensions in the market during the transition phase from a sector which needs full support to one which can stand on its own in the power markets. Particularly in the current challenging economic climate (increasing spread, relatively tight liquidity in banking markets etc) EIB’s approach to support lending and equity is highly relevant.

On a macroeconomic level, this approach can help Europe retain its competitiveness in relation to overall manufacturing and production costs. By and large, energy prices are higher in Europe than other major OECD countries (esp. the United States). Therefore, a reliance on conventional and nuclear energy alone is likely to contribute to a loss in competitiveness of the European economies. Moreover whilst manufacturing of equipment is largely made outside Europe (at least on the solar side), Europe has very significant experience in project development with a number of players who operate globally and have sizeable activities and a significant number of employees. Finally, there are two alternative justifications that we see for supporting renewable energies in Europe: firstly, the need for lowering carbon emissions in energy generation to ensure a sustainable economy on the long term, and secondly the need to be less dependent on energy imports and to move towards energetic independency. Renewable energy can make a significant contribution to these objectives.

What evidence is there that the cost of emerging technology is falling?

Our exposure to emerging technology is limited to solar photovoltaics. We have first-hand knowledge that solar module prices have fallen to as low as a third of prevailing market prices three years ago (2009). This is also reflected in the financial performance of the multiple players in the panel manufacturing industry globally, and numerous industry reports have confirmed this trend.

What level of investment in Renewable Energy are you expecting in the short and medium terms?

Throughout the EU-27, we expect to see a decrease of investments activity in new built photovoltaics in the short and medium term, and much of it will comprise rooftop installations as support for large-scale ground mounted projects has been cut back. Onshore wind investment activity will also be reduced, albeit not as drastically, as suitable sites are becoming scarce. Most good wind sites have been developed, and aside from Denmark and North Germany, re-powering is not to foreseeable in the short and medium term in other European wind markets. The development of low wind speed turbines and their inland deployment will be the main mitigating factor countering this development. We continue to see growth in offshore wind, and biomass seems to be on a steady trajectory (remaining however at relatively low levels).
Do you agree that there is significant scope for investment in renewable heating and cooling?

Yes, we believe that there is reasonable scope for investment in renewable heating. As lined out above, we only invest in electricity generation assets. However, most biomass projects that we have analysed in the past years included the supply of renewable heat either for a residential use or an industrial use. Incentives vary across countries reflecting local climate and energy markets, Denmark being more developed than countries like Germany, France or the UK. In particular, policymakers in the United Kingdom have recognised the underinvestment in, and the benefits of, renewable heat, and this is now reflected in the Renewable Heat Incentive. We expect regulators of other countries to follow suit given rising energy prices.

What are the barriers to investment in renewable energy outside Europe? How might these be overcome?

Several barriers to investing in renewable energies in Europe have emerged since the financial crisis. On the government side, legislators have enacted tighter rules to regulate financial markets and increased taxes. While the former increases the cost of funding to lenders, the latter burdens projects with higher on-going costs. Additionally, banks are facing higher lending margins in the inter-banking market, further adding to the cost of lending. Moreover shorter debt tenors, which appear to be driven by impending rules under Basel III, make it difficult to fund projects on a non-recourse project finance basis. All of these factors have contributed to falling asset prices, which have partially mitigated the reduction and/or falling away of regulatory support to renewables in several European countries. Nonetheless, we find it still very difficult to invest in the current context.

Besides, project finance is almost unavailable to projects in late stages of development, and select geographies (such as some countries in South Europe and Eastern Europe suffer from a complete absence of project finance. The markets would probably welcome EIB addressing these aforementioned challenges to further stimulate investments in the renewables sector across Europe.

What are the main obstacles to investment in renewable energy outside Europe?

As described above, European markets are of strategic interest to us. However, we have explored a number of peripheral markets, especially North Africa, Turkey as well as parts of Asia (South East Asia, India and China). In our view, these markets could benefit from higher sun and wind resources, having to overcome a comparably small cost advantage of conventional power in their domestic markets.

Tapping that source remains challenging, however.

The most obvious obstacle to investment in renewable energy is the fact that such technology is still not competitive enough to compete with conventional power in those markets. Additionally, the absence or insufficiency of relevant support schemes represents a sever impediment. Where those support schemes exist, they often lack clarity and continuity. Besides, grid issues such as grid availability and reliability cut into the profitability of power generation assets generally. Moreover, country and currency risk premia need to be included and, therefore, constitute an additional obstacle. All these factors combined result in a shortfall of funding available (such as non-recourse project finance) which severely impacts investor appetite necessary to increase renewable power capacity base.
Consequently, major state owned consortiums (like in Morocco, Saudi Arabia...) had to take the lead in realising path-finder projects, aided by funding provided by the State and flanked by a gradual grid upgrade.

**Further feedback**

We do hope our contribution will be valuable to the Europe Investment Bank and remain at your disposal should you need any further information on this paper.

Yours sincerely

---

**Joost Bergsma**  
CEO – Investment Director  
Glennmont Partners

---

**Contacts**

<table>
<thead>
<tr>
<th>Joost Bergsma- CEO</th>
<th>Adam Oubuih</th>
<th>Henrik Urbansky</th>
</tr>
</thead>
</table>
| Tel: +44 (0) 207 063 7519  
Mobile: +44 (0) 77 38 18 93 89  
joost.bergsma@glennmont.com | Tel: +44 (0) 207 063 7737  
Mobile: +44 (0) 79 19 54 74 86  
adam.oubuih@glennmont.com | Tel: +44(0) 207 063 7716  
Mobile: +44 (0) 75 84 20 49 59  
henrik.urbansky@glennmont.com |