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The Post 2012 Carbon Credit Fund

Introduction

The intention of a group of four leading European national and international financing institutions – the EIB, Spain's Instituto de Crédito Oficial (ICO), Germany's Kreditanstalt für Wiederaufbau (KfW) and the Nordic Investment Bank (NIB) – to establish the Post 2012 Carbon Credit Fund was announced with the signing of a Memorandum of Understanding at the EIB Forum in Slovenia in September 2007. The development of the Fund is now well advanced and the four original partners have been joined as participants by France's Caisse des Dépôts (CDC).

Background

The first Commitment Period under the Kyoto Protocol, during which EU Member States have an obligation to reduce greenhouse gas emissions by 8% from their 1990 levels, comes to an end in 2012. The Kyoto Protocol includes the so-called 'flexible mechanism', which enables signatories to meet greenhouse gas targets, in part, by buying emission reductions from elsewhere.

The EU's Emissions Trading Scheme was established to help the EU and its Member States meet their obligations under the Kyoto Protocol. The scheme is currently in its Second Phase, which runs from 1 January 2008 to 31 December 2012. The scheme has also helped to contribute to the development of a thriving market for project-based credits, helping the EU to meet its Kyoto obligations in the most cost-effective manner.

However, this market – and the environmentally helpful projects that have benefited from it - is currently threatened by uncertainties about the post-Kyoto period. This uncertainty makes it difficult for worthwhile projects to monetise fully the economic benefits of the emission reductions they could make post-2012.

Purpose of the Fund

The Fund is designed to help to address this uncertainty. It will operate by entering into agreements to buy the post-2012 streams of carbon credits from worthwhile projects. In particular, the Fund will buy these credits at prices above what could otherwise currently be achieved by the project companies. In this way, the Fund will contribute to EU climate change mitigation policies through the promotion of confidence in the emergence of a post-2012 carbon credit market. The willingness of the participants to commit to the post-2012 market in this way will provide a clear signal to the market, as well as support projects which could otherwise have suffered as a result of uncertainties relating to the post-Kyoto period.

The Fund will on-sell the Emission Reduction Purchase Agreements over time and, it is anticipated, principally to compliance buyers (that is, buyers seeking to meet statutory obligations) as the future shape of post-Kyoto emerges. The Fund will avoid taking delivery risks, or taking credit risk on buying or selling counterparts. In other words, it will not usually offer advance payments, nor will it offer delivery guarantees to purchasers.

The key risk, therefore, that the Fund will be taking will be regulatory – a risk that, for the reasons set out above, private players have found difficult to manage. For this reason, the banks' initiative in developing the Post 2012 Fund has been widely welcomed in the market.

Management of the Fund

The day-to-day activities of the Post 2012 Carbon Fund will be undertaken, within the terms of operating and policy guidelines established by the participants, by an independent fund management team.
The Fund Manager will also ensure that all underlying projects supported by the Fund will be fully compliant with the EIB's Environmental and Social Standards.

The appointment of the Fund Manager, who was selected after an open international tender, will be finalised shortly and the Fund expects to commence operations in March 2008. It is anticipated that the Fund will close with initial commitments of EUR 125 million, of which EUR 50 million will be subscribed by the EIB.

Relationships with other EIB Carbon Funds

The Post 2012 Carbon Credit Fund complements the EIB's three other carbon funds.

The Multilateral Carbon Credit Fund is designed to develop the carbon market in countries in transition and to help EBRD and EIB shareholders and other parties to meet their mandatory or voluntary emission reduction targets. The Fund only sources and purchases carbon credits from projects financed by the EBRD and/or the EIB in countries eligible for EBRD operations. The Fund also facilitates "Green Investment Schemes", in which the proceeds of state-to-state trading of carbon credits are used to finance climate-friendly projects in the selling country. The MCCF aims to stimulate and complement private sector participation in the carbon market. The size of the MCCF has aggregate commitments of EUR 190 million, of which EUR 150 million for project-based carbon credits and EUR 40 million for green investment schemes.

The Carbon Fund for Europe is co-managed by the World Bank and the EIB and has at its disposal EUR 50m, which may rise to a total of EUR 100m. It is designed to help European countries and companies in the EU Emissions Trading Scheme meet their Kyoto commitments. It helps to achieve sustainable development by fostering investment in clean technology projects. The Fund can also buy carbon credits generated after the end of the Kyoto commitment period in 2012, up to a limit of 40%.

The EIB/(KfW) Carbon Programme is a risk sharing arrangement between the EIB and KfW and focuses on helping EU-based small and medium-sized enterprises to access carbon credits for voluntary or statutory compliance purposes. It is directed at the market participants normally excluded from such funds due to their limited purchasing requirements and lower credit standing.

For further information on the EIB, visit its website www.eib.org.

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