



Update on the NER 300 Initiative

3rd Annual European Emissions Markets Conference

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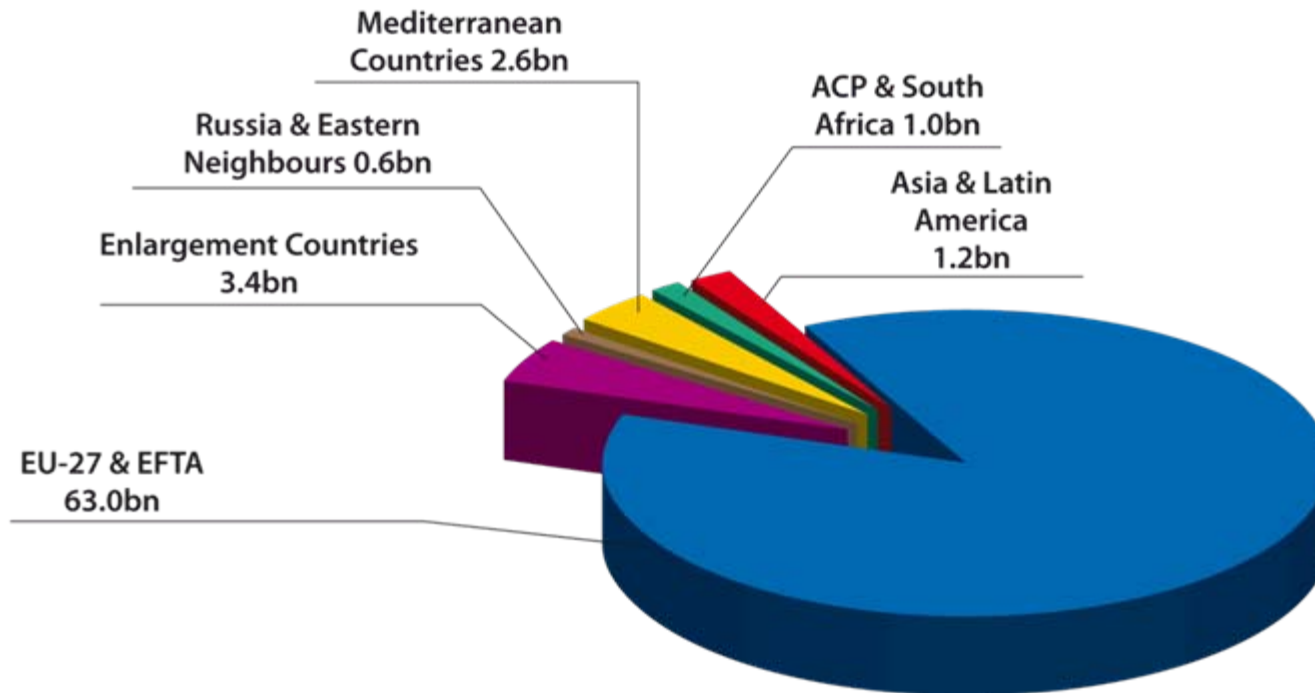
Brussels, 6 October 2011

What is the EIB?

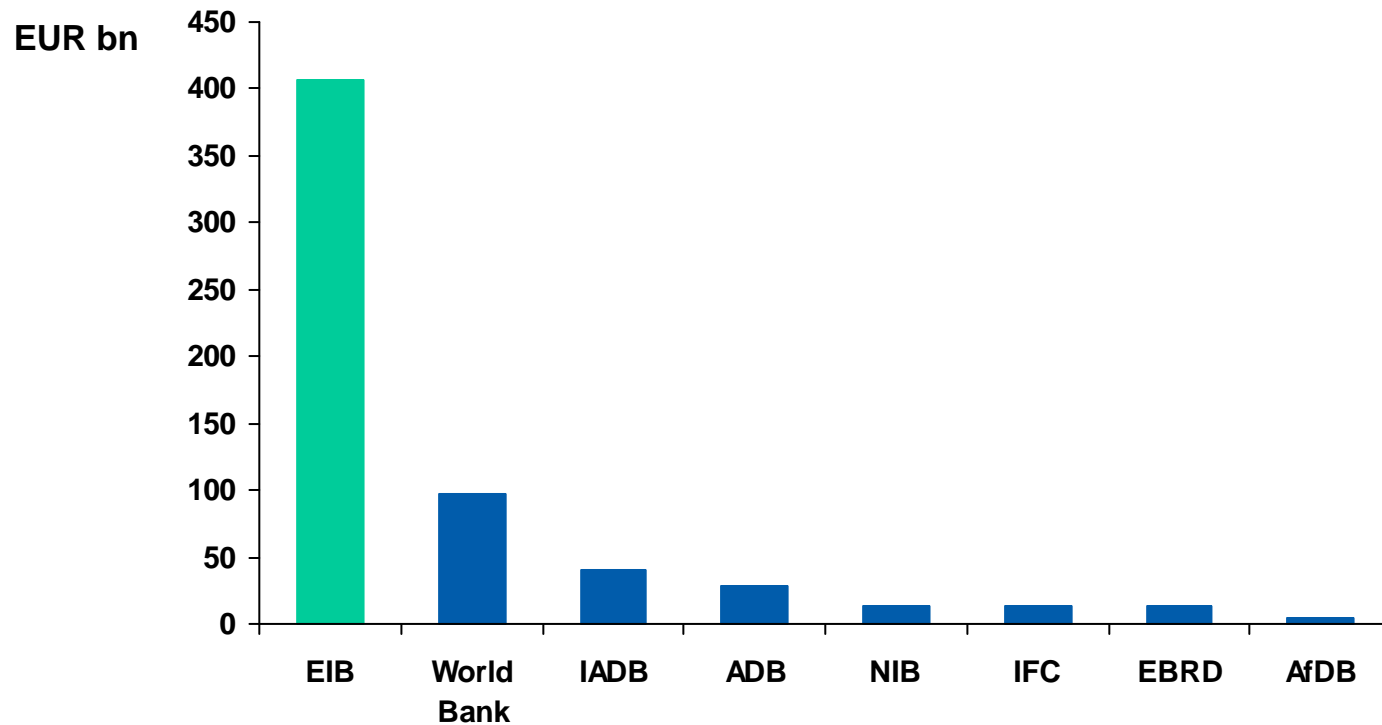


- ❖ The EIB is the European Union's long-term financing arm, set up in 1958 by the Treaty of Rome.
- ❖ It is wholly-owned by the EU's 27 Member States; operates on a non profit-making basis.
- ❖ The EIB finances projects within the EU and in partner countries (Pre-accession, Southern and Eastern Neighborhood, ACPs, Asia and Latin America).
- ❖ It borrows money on the capital markets to be on-lent to projects in line with EU policy objectives.
- ❖ The EIB finances viable projects in both the public and private sectors. Recipients range from large corporations to municipalities and small businesses.
- ❖ In addition, the EIB provides technical assistance; the EIB employs a team of around 200 expert economists, engineers and specialists to complement its financing facilities.

EUR 72 bn loan signatures in 2011



Largest Supranational Lender



Loans outstanding (signed)

World Bank, IFC: June 2010

EIB, IADB, ADB, NIB, EBRD, AfDB : December 2009



- ❖ The EIB supports the climate action and energy strategy agreed by EU leaders in March 2007 and the “Europe 2020” objectives.
- ❖ The EIB’s total EU energy loan signatures in 2011 were EUR 11.6 bn of which EUR 5.6 bn for renewable technologies; also record year for investment in energy efficiency programmes.
- ❖ The EIB offers traditional loan finance, sponsors carbon funds, targeted funds (European Energy Efficiency Fund, Green for Growth Fund, etc.) and provides technical assistance (through European Local Energy Assistance facility), often in partnership with the EC and other IFIs.
- ❖ EIB activities outside the EU: EUR 4.5 bn Sustainable Energy Facility (e.g. EUR 500 mn framework loan with Brazil); soon to receive EUR 2 bn climate action mandate under EU budget guarantee. Supporting technical work at UNFCCC on post-Copenhagen Green Climate Fund.

What is the NER 300 initiative about?



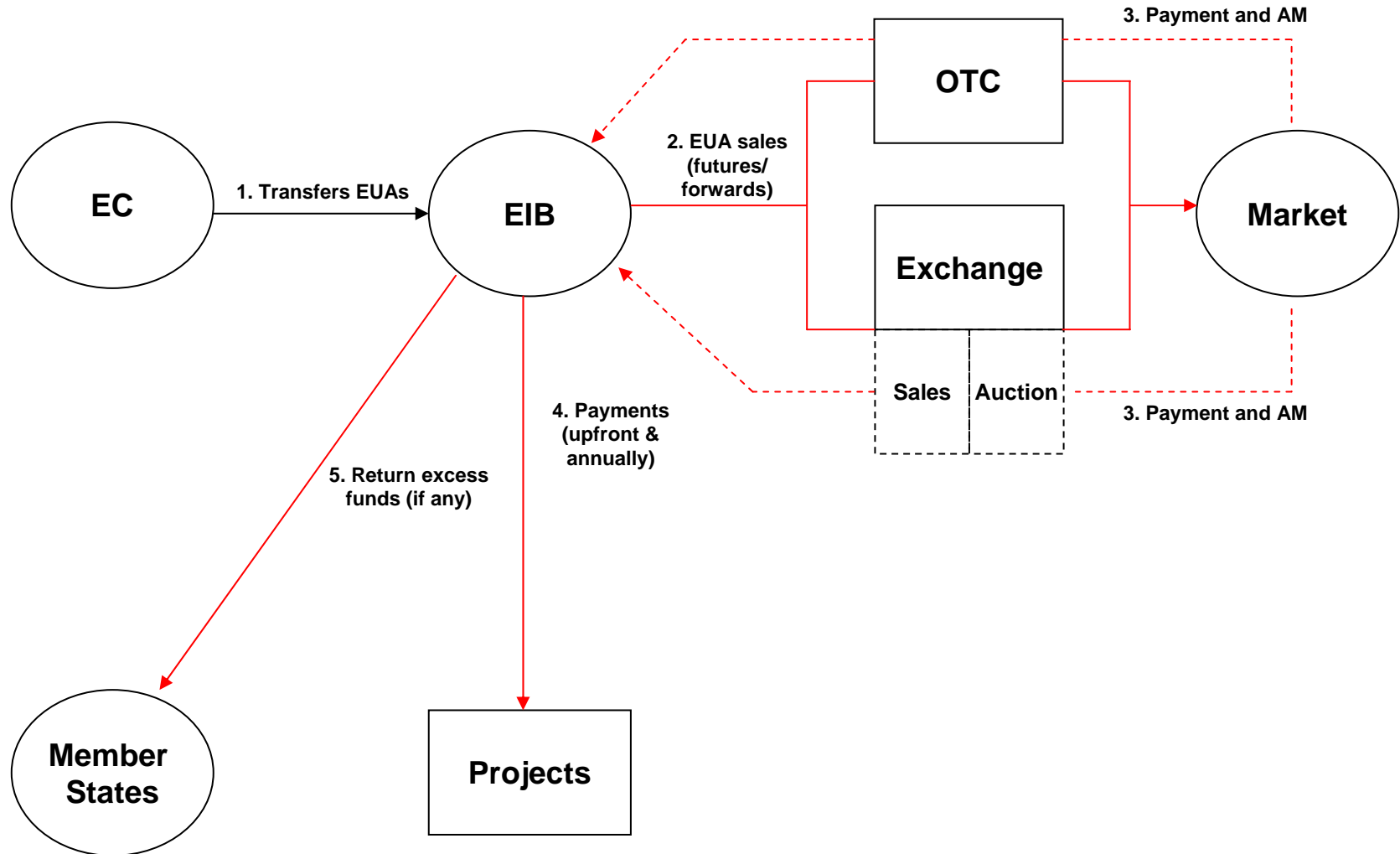
- **What is the initiative about?** The EIB supports the European Commission (EC) as an agent in the implementation of the NER 300 initiative - the world's largest funding programme for carbon capture and storage demonstration projects and innovative renewable energy technologies.
- **What does NER mean?** NER stands for New Entrant Reserve, a pool of carbon credits managed by the EC available for new entrants into the EU Emissions Trading Scheme.
- **Why 300?** 300 stands for 300 million EU Allowances (EUAs) that will be sold by the EIB on behalf of the EC.
- **How much money will be raised?** The overall funding for the projects will depend on the prevailing price at which the allowances can be monetised.



What is the role of the EIB?

- ❖ A Cooperation Agreement between the EC and the EIB details the roles of the EIB in the implementation of the NER 300 Decision:
 1. the appraisal of projects submitted by Member States for funding;
 2. the monetisation of the 300 million EUAs set aside in the New Entrants Reserve of the EU Emissions Trading System for the initiative.
- ❖ Overview of the NER 300 process:
 1. Member States submit proposals to the EIB
 2. The EC transfers 300m EUAs to EIB
 3. EIB sells EUAs (on a futures and forward basis)
 4. EIB finalizes the appraisal of projects
 5. Consultation between EC and MS
 6. First Award Decision
 7. Award Communication
 8. Settlement of EUAs
 9. EIB provides asset management services for the revenues
 10. EIB disburses payment to projects in accordance with the award decisions
 11. EIB returns excess funds (if any) to MS

The monetisation and asset management



General monetisation principles (1)



- ❖ The EIB intends to monetise the 300m EUAs on a futures or forward basis for December 2013 settlement.
- ❖ The EIB can use three available instruments:
 1. Over the counter (OTC) or off-exchange transactions;
 2. On-exchange transactions;
 3. Auctions.
- ❖ The main objective of the monetisation will be to minimise any impact on the EUA market.
- ❖ The EIB does not take any view on prices and does not have a price target for the monetisation of the EUAs.
- ❖ The final sales prices should not deviate significantly from the relevant secondary market prices over the monetisation period.

General monetisation principles (2)



- The EIB shall start the monetisation within one month after the 300m EUAs have been delivered by the EC to the EIB.
- The delivery of the allowance will depend on the adoption of the Union registry regulation:
 - The Cooperation Agreement between the EIB and EC allows for EUA sales before the Union registry is fully operational.
 - A provision in the proposed registry regulation will enable the EC to create the 300m EUAs and deliver them to an account opened for the EIB in the current registry system.
 - The regulation is expected to be adopted by mid-November.
 - The start date of monetisation is therefore independent from the start date of the single Union registry.
 - The EIB is working with the EC on technical steps and requirements to open a registry account.

General monetisation principles (3)



- ❖ The monetisation is divided into two tranches:
 - The first tranche of 200 m will be sold over 10 months following the delivery of the EUAs to the EIB.
 - For the second tranche of 100 m, the EIB intends to sell immediately after the conclusion of the sales of the first tranche. Timing and other arrangements may be reviewed in light of experience and prevailing liquidity.
- ❖ The volume will be spread as evenly as possible with an indicative average of 20 m a month (available trading days will also be taken into account).
- ❖ Monetisation will take place periodically, at least every second week.
- ❖ Once sales start, the EIB will provide monthly reports on the web of overall sales volumes achieved and aggregated prices obtained.

|| Status of the monetisation (1)



- The EIB launched a tender to identify eligible carbon exchanges for the execution of on-exchange trades in July:
 - The Bank will soon publish the identified eligible exchanges and will start discussing needed documentation to apply for membership.
- In parallel, the EIB has started negotiations with counterparties active in the carbon market on the legal documentation for OTC forward sales of EUAs:
 - The EIB followed the market-standards defined by the International Swaps and Derivatives Association (ISDA).
 - The EIB was able to conclude negotiations with a sufficient large group of counterparts to commence the monetisation. The counterparties were of acceptable credit quality to the EIB and agreed to the proposed documentation.

|| Status of the monetisation (2)



- The EIB intends to follow a staged approach for the monetisation. In a first step, the EIB intends to sell on an OTC basis followed by on-exchange transactions in due course.
- On-exchange transactions can take the forms of:
 - direct screen trades
 - OTC exchange cleared transactions
 - auctions on selected carbon exchanges. Auctions are not dependent on the infrastructure being put in place for early auctions of phase 3 allowances
- The EIB foresees to use all distribution channels