



Half-way through NER300 sales: lessons learnt

EIB Side Event, Carbon Expo 2012

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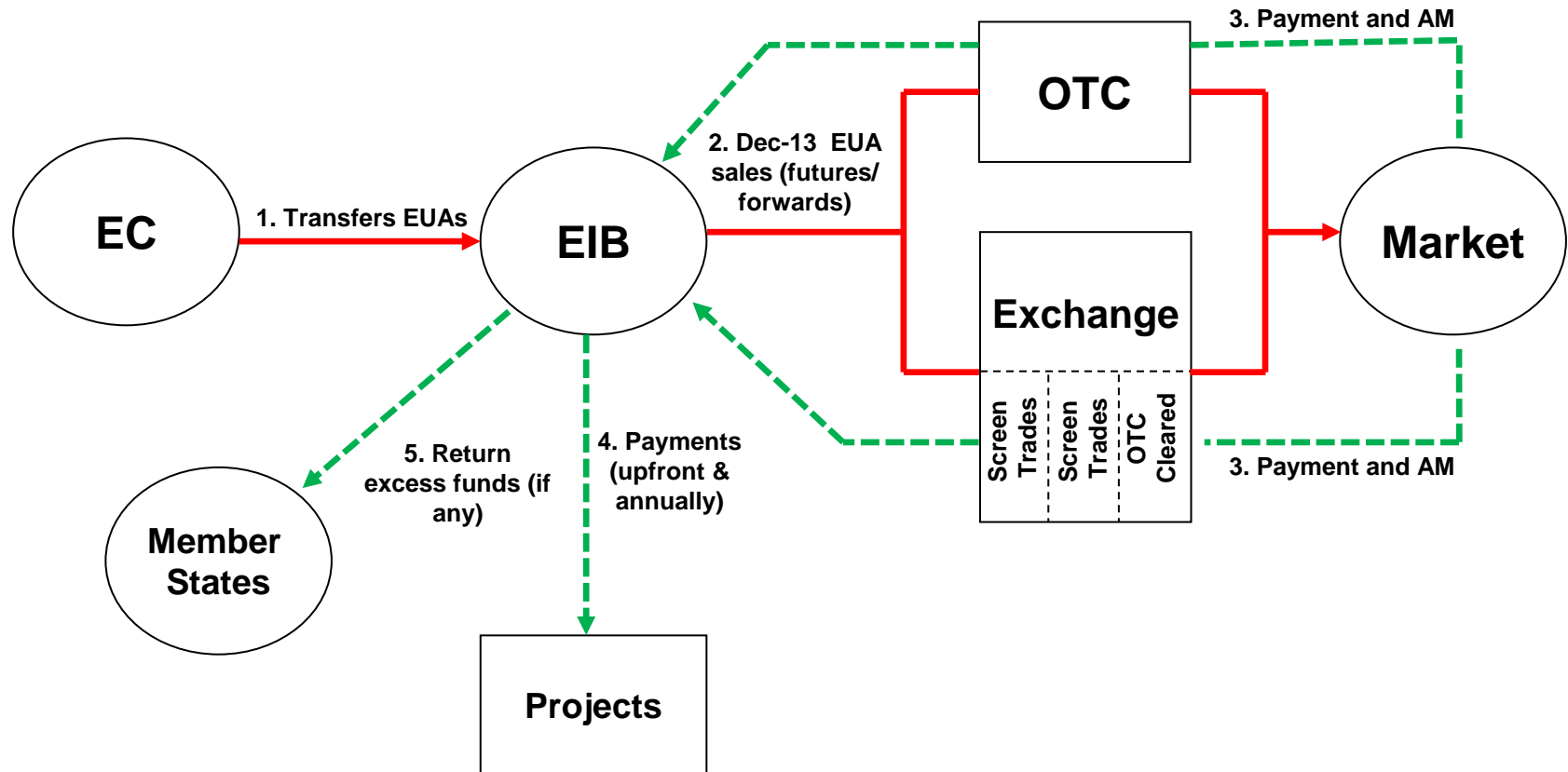
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NER300 Initiative – overview



- ❖ The EIB supports the European Commission (EC) as its agent for the implementation of the NER300 Initiative – currently the world’s largest funding programme for carbon capture and storage demonstration projects and innovative renewable energy technologies based in the EU
- ❖ “NER” stands for New Entrant Reserve, a pool of carbon allowance available for new entrants into the EU Emissions Trading Scheme. “300” stands for 300m EU Allowances (EUAs) for Phase 3 of the EU ETS that will be sold by the EIB on behalf of the EC
- ❖ EIB supports the EC in two ways:
 1. appraisal of projects submitted by Member States for funding
 2. monetisation of the 300m EUAs
- ❖ This presentation is only covering NER300 sales

The role of the EIB for the NER300 sales: monetisation and asset management



Considerations for NER300 sales



- ❖ Unlike most other governmental carbon allowance sales programmes, NER300 sales are structured on a forward and futures basis
- ❖ EIB extensively consulted leading market participants and industry groups such as IETA on what instruments to use
 - The vast majority recommended a combination of all available instruments using over-the-counter (OTC) transactions using standardised trading agreements, direct exchange trades, cleared OTC transactions and auctions
 - EIB followed the advice and used a staged approach to implement the sales programme starting with OTC transactions using ISDA agreements in December 2011 followed by exchange transactions in March 2012
 - The bank will add auctions from June onwards

First five months of NER300 sales



Month	Volume (EUAs)	OTC Forward	Exchange Traded	OTC Cleared	Average Price	Deviation from VWAP*
Dec-11	12,000,000	12,000,000	-	-	8.15	0.000%
Jan-12	21,500,000	21,500,000	-	-	7.87	0.051%
Feb-12	23,500,000	23,500,000	-	-	9.42	0.003%
Mar-12	21,600,000	21,400,000	175,000	25,000	8.43	0.001%
Apr-12	20,500,000	10,950,000	7,800,000	1,750,000	7.51	0.002%
Total	99,100,000	89,350,000	7,975,000	1,775,000	8.18	

*Volume Weighted Average Price as quoted on ICE

- ❖ EIB sells on average 20m per month using all available instruments. Sales volume is adjusted to reflect available trading days and market liquidity
- ❖ EIB uses the Volume Weighted Average Price as quoted on ICE as a benchmark
- ❖ The first tranche of 200m will be sold by October 2012

What can be learnt ? (1)



- ❖ Did sales negatively impact the market?
 - Timing of the sales was driven by the delivery of the EUAs into EIB's registry account, which was only possible after the adjusted Registry Regulation entered into force in November 2011
 - Given its size, the NER300 volume had an inevitable impact when sales were announced, but the volume was smoothly absorbed once the market realised that the EIB will stick to its 20m per month sales target
 - Steady rise in open interest at leading exchanges are an indication that compliance buyers absorb the volume to fulfill their hedging activities
- ❖ Did certain market participants have an information advantage?
 - Some market participants were concerned that OTC counterparties may have an information advantage as they know what volume will come to the market
 - EIB communicated that it would sell on average 20m per month. It was ensured that no OTC counterparty was aware of the total volume sold at any trading day. Most OTC volume was sold against the volume-weighted average price. This minimized any information advantage and incentivized even placement during the trading day

What can be learnt ? (2)



- ❖ Were certain market participants excluded from sales?
 - EIB had no intention to exclude any market participants from the sales and committed to the EC to use the same risk criteria for the NER300 sales than for its own business
 - With the start of trading and clearing on ICE and EEX, EIB is using exchanges which cover over 90% of the exchange traded EUA volume and provide access to over 400 market participants
 - Market participants can profit from increased liquidity in screen trades and are invited to do OTC cleared transactions with the EIB
 - From 7 June, EIB will hold auctions on four trading days each week, which will allow market participants to directly or indirectly purchase EUAs from the NER300

Conclusion & Outlook



- ❖ EIB sold more than half of the first 200m EUAs and is on time to complete this tranche by 2 October 2012
- ❖ NER300 sales appear to be positively received by the market given their steady and predictable sales pattern, high degree of post-sales transparency and contribution to supply for hedging activities by compliance buyers
- ❖ As for the timing of the second tranche of 100 million allowances, the Commission and the EIB agreed that decisions on timing will be based on a review of experience in selling the first 200 million allowances. Further information on the timing of the second tranche will be provided once a decision has been taken.

Further Sources



- ❖ For more information on the NER300 sales, please visit: <http://www.eib.org/ner300>
- ❖ The EIB auction calendar can be downloaded at http://www.eib.org/attachments/ner_auction_calendar.pdf
- ❖ The May 2012 sales report will be published on Tuesday 12 June 2012 shortly after 6 p.m. CET on <http://www.eib.org/ner300>
- ❖ For an NER300 sales or trading inquiries, please contact NER300Quotations@eib.org
- ❖ For press inquiries, please contact Richard Willis at r.willis@eib.org