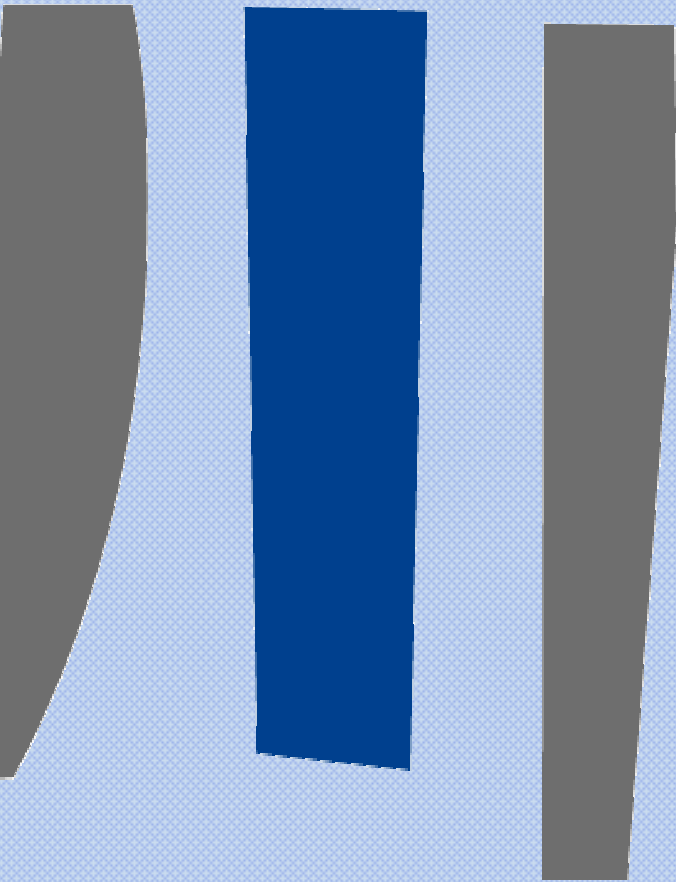


Implementation of the Kyoto Protocol, Energy Efficiency and Climate Change Mitigation
Geneva, 29 June 2005



European Investment Bank

**EIB's activities in support of
the EU's Climate change Policy**



EIB - European Union's financing institution:

- Created by the Treaty of Rome in 1958, to provide long-term finance for projects promoting European integration;
- Subscribed capital EUR 163.7bn;
- EIB shareholders: 25 EU Member States;
- Lending in 2004 : EUR 43.2bn (34bn within EU);
- Environmental lending: EUR 10.9bn (34.8%)
- Borrowings in 2004: EUR 50bn (50 % in E currencies).

- The “**Linking Directive**” sets the framework for EIB’s operations in support to the implementation of the Kyoto Protocol (KP):
 - ✓ Reduce GHG (Greenhouse Gas) emissions
 - ✓ Support the development of emerging carbon markets
- 1st January 2005: start of EU-ETS (Emission Trading Scheme)
 - ✓ 1st trading period : 2005-2007
- Goal : 8 % GHG emissions (base line : 1990)
 - ✓ 2nd trading period : 2008-2012
 - Goal : -15/30% GHG emissions (basic line 1990)

- 1st quarter 2005: GHG quotas National Allocations Plans (Naps) (designed in concertation with European Commission)
 - ✓ 1st Phase (2005-2007):
 - 7 industrial sectors, 3 energy sectors
 - 12.000 installations covered
 - ✓ 2nd phase (2008-2012)
 - Broader sectorial definition (transport, hou
agriculture...)?
 - More stringent Q-NAPs?

- Q-Naps not yet fully implemented (Cz, I, Gr not finalized)
UK and PL under dispute with EC-Commission)
- Sharp increase of the traded volume of ETS
 - September 2004 : >1 million/t of CO² (informal market)
 - End April 2005: > 6 million/t of CO² (beginning of formal market)
- Volatility in market prices
 - For CDM credits: 8€/t (09/04) → 5.5 €/t (01/05) → 9.5 €/t (04/05)
 - For allowances: 3€/t (09/04) → 6.35 €/t (01/05) → 16€/t (04/05)
- Shortage of allowances and credit likely to continue until:
 - National registers are operational (5 at present)
 - Free transfer of CDM credits between national registers secured (2008?)
 - Uncertainties on the 2nd phase are removed

- All projects must comply with EU standards
 - ✓ In Candidate Countries : if necessary, phased application of EU Standards (case by case basis)
 - ✓ Outside EU : if EU standards not realistically applicable, apply “Equator Principles” or WB Standards (PPAH)
- All projects be subject to an EIA, conducted according to EU Directive and satisfactory to the EIB.
- Application of “Best Available Technique” (BAT) according to EU-IPPC Directive (outside EU, local standards if necessary)
- Every project likely to affect social conditions must undergo PSA (project social assessment) – EIB Social Assessment Guidelines in preparation (end 2005)

- Loans to energy efficiency projects
 - Urban public transport schemes
 - High speed rail links/freight on rail projects
 - Industrial up-grad (steel, cementries, automotive..)

- Sharp increase in renewable energy projects
(EUR 3bn, so far ; EUR 5,5 bn project pipe-line)
 - Up to 50% of energy production financing in 2008-2010

- Financing R&D for environmental technologies development

- Climate Change Initiative

- Comprises 3 elements: CCTF, CCTAF, EPCF
- Goals:
 - ✓ To promote the implementation of EU's Climate Change policy
 - EU Emission Trading Scheme (ETS)
 - EU Clean Development Mechanism (CDM) and Joint Implementation (JI) Project
 - ✓ To assist the development of investments in emission reduction projects: (CDM)-CERs and (JI)-ERUs
- Beneficiaries:
 - ✓ Sectors covered by the EU-ETS (Linking Directive)
 - ✓ Investments that help comply with Q-NAPs
 - ✓ EU companies that invest in and outside EU in order to meet their GHG/CO² emission allowances.

- “CCFF” consists of :
 - ✓ EUR 500 mio dedicated financing window for:
 - CO²/GHG emission reductions projects
 - undertaken by corporate or medium sized companies
 - operating within the EU-ETS
 - ✓ EUR 100 mio sub window dedicated to :
 - CDM and JI projects (in and outside Europe)

- “CCFF” offers :
 - up to 50% (75%) financing of the project cost.
 - when appropriate: structured and/or risk-sharing financing

CCTAF” provides advance funding for :

- covering promoter’s overhead cost in meeting regulatory and transactions requirements (outsourcing private sector consultancy)
- identification of carbon asset potential
- Project documentation (PDS) and carbon credit sale documentation

CCTAF” takes the form of :

- refundable grant; once project has yielded carbon credits
- risk sharing aid (no refund should the carbon asset fail)

Funding : EUR 10 million; 50% EIB (“kick start facility”) + 50% of donors (EDFIs.)

Pipeline : 8 projects (6CDM, 2 JI); PL, Estonia, Mongolia, Br

based on an EIB-WB-IDA Memorandum Signed 12-06-2004

(similar talks underway with ERBD)

Operations:

- Acquires project-based verified GHG Emission reduction (ERUs) meeting CDM or JI requirements
- provides project promoters with early stage cash-flow
- Sells those CERs or ERUs once they are certified

Assistance:

- Pools WB and EIB's experience in identifying and trading carbon assets
- shares this knowledge with EPCF's participants (training, providing information, assistance to carbon risk management).

Funding/resources:

- Up to EUR 50mio in successive closings
- Established as a trust fund
- Operated by the WB as a trustee; co-managed by WB and EIB
- Subscribers: Public sector entities (10mio/each), private sector (2.5mio/each)

Beneficiaries:

- EPCF participants, EU-based companies subject to EIA, Governments
- Project sponsors with verified CERs or ERUs, deliverable before 2012 (minor portion beyond 2012)
- End of activities: 31-12-2017

evention: hampering factors

Complex and still developing regulatory framework

Considerable over-head and transaction costs

Specific expertise required with very few experienced players

Need for:

- steady political commitment (public awareness)
- adapted financial tools : technical assistance, structured finance, risk-sharing instruments
- market openers to develop enabling instruments (e.g. assets trading platforms, specialised venture industry, etc.)

CC prevention is this century's challenge

EU took the lead, EIB is playing a decisive role

EU countries still on a learning curve: good progress is made, experience has to be capitalised, market to be developed, integrated

What is at stake?

- Support a cultural change leading to market solvency
- Catalyse willingness from public authorities, market players, industrialists and financiers
- Manage unfair competition and market distortions at home and abroad 2015-2025.

EIB ENVIRONMENTAL PUBLICATIONS

www.eib.org/environment/en/index.htm

Environmental Report 2002-2004

(to be approved by the Board on July)

EIB's Environmental Statement

EIB Environmental Procedures

EIB and Sustainable Development

EIB and Climate Change Prevention

EIB and Renewable Energy

**President Maystadt's contribution to COP-9 Conference
– Milan 11-12-2003**



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<http://www.eib.org>