

UNCCP, COP 9, Milan 11 December 2003

European Commission (DG ENV) - EIB Informal High-Level Lunch

Summary of Address by EIB President Philippe Maystadt

PROPOSED EIB ACTIONS TO SUPPORT EU CLIMATE CHANGE POLICY

The overarching aim of the EIB in the field of climate change - through the projects it finances - is to help bring about a contribution to a reduction in greenhouse gas emissions in support of EU Climate Change policy.

Strategic importance of climate change issues

The EIB has been working on climate change issues for several years, particularly since the approval by its Board of Directors of a policy towards Climate Change in July 2001. Like many other institutions, the Bank recognises the strategic importance of climate change issues and, during 2003, it stepped up its climate change activities, working with external consultants

- to review the experience of other market participants; and
- to help develop its own lending and investment products.

But the EIB is not working in isolation. It recognises that many other public and private financial institutions are also putting more resources into this field. Hence its staff is closely liaising with a number of industrial companies, financial institutions and some national authorities. It is learning from the lessons of others in order to achieve maximum synergies and to avoid unnecessary duplication of effort.

Above all, the actions of the EIB in the field of climate change are being taken in close collaboration with the Commission, especially Commissioner Wallström and DG Environment (ENV).

In the field of renewable energy, the EIB is on course to meet its target to increase the share of renewable energy in total energy lending from 7% to 15% and is currently reviewing the scope for doing more, with a particular focus on the development and commercialisation of new technologies contributing to the so-called Growth Initiative approved on 12 December 2003 by the European Council.

But now attention is also being given on how to promote reductions in greenhouse gas emissions in the framework of the EU Emissions Trading Scheme (ETS) and its proposed draft amendment that will provide for the purchase of carbon credits from outside the EU through the development of the flexible mechanisms of the Kyoto Protocol, Joint Implementation (JI) and the Clean Development Mechanism (CDM).

It should be recalled the ETS and its draft amendment are not a license to pollute. They are designed to bring about reductions in greenhouse gas emissions in a cost effective way. They will promote the development and implementation of new environmental clean technologies that will result in a reduction in greenhouse gas emissions from what would otherwise be the case in both Europe and other regions.

On the one hand, it will be necessary to factor the monetary value attributed to carbon into the financial analyses carried out by the EIB; on the other hand, the socio-economic impacts of climate change may have a significant effect on the economic viability of a project. Therefore adapting existing financial instruments and developing new mechanisms for risk management will be crucial for the Bank to be successful in this field.

Added value of EIB financing and new lending opportunities

The strength of the EIB is in financing investment projects through long-term funding, over the past five years (1998-2002), EUR 32 billion of individual loans for environmental projects, with maturities and at interest rates that neither the capital markets nor the syndicated loan markets are normally able to provide. Guided by the need to add value to what is becoming a very busy market place, the Bank will focus its attention on

what it does best, in this case helping reduce greenhouse gas emissions through the projects that it finances.

The staff of the EIB is developing two specific *initiatives* in this regard:

□ **Dedicated Financing Facility** (DFF) to provide appropriately structured loan finance for projects sponsored by promoters either participating directly in the EU ETS or investing outside the EU, seeking to generate EU ETS allowances or their equivalent through investments in greenhouse gas mitigation measures.

□ **A lending envelope of Euro 500 million** is planned, committed over an initial timeframe of 3 years, likely divided geographically in a ratio of the order of two thirds/one third between the EU-25 and the other regions where EIB currently operates. These sub-limits for lending in the EU-25 and in third countries will in any case be kept under review, according to market demand and performance. The DFF will be launched in early 2004

Looking beyond this DFF, the EIB has, through its assessment of the needs of the carbon market participants, identified a clear requirement to support the structuring of the projects in their early phases.

Possible future developments

The EIB is also considering:

□ A **Technical** (or transactions) **Assistance Facility** (TAF) to provide grant finance to help identify, prepare and market JI and CDM project-related carbon credits in transition and developing countries, that most likely would be linked to the EU ETS allowance market. The EIB might also contribute to the financing of the resulting project under the DFF or using other existing financial instruments;

□ The EIB might provide initially up to Euro 5 million with matching grants from other sources, such as the Commission and some Member States. Whenever possible, the grants would be paid back from any proceeds from the sale of associated carbon credits or be rolled into the cost of the successful project and thus be long-term financed. The TAF is most likely to be focused on regions outside the EU-25.

For these two proposals, discussions are now taking place with a variety of potential financial and technical partners in order to identify and develop appropriate financing and risk management mechanisms.

For example, the EIB is discussing:

- With the **Commission** to identify EU partner companies that will participate in the EU ETS and to identify potential sources of matching grants for the TAF;
- With a **private** sector consortium of **banks** that seek investors in a proposed new carbon credit fund;
- With a recently established non-governmental organization that is developing a platform to help bring together carbon reduction projects and potential sources of investment finance with associated technical assistance;
- With the **World Bank** on how EIB projects might benefit from carbon financing by its various carbon funds;
- With a number of **Member States** on how the EIB might help them meet their Kyoto Protocol commitments in a cost effective manner.

The EIB staff is also exploring further the potential for EIB participation in a **carbon equity-type facility**, more directly linked to carbon trading, possibly associated with the plans of some EU Member States and European corporations to acquire good quality carbon credits in various forms from outside the EU. Regardless of whether the Bank were to become directly involved in either the management and/or the financing of such a fund, it is clear that many of the projects which the Bank finances have the potential to generate credits that might be suitable for equity investment of this type.

In conclusion, I would like to stress that the EU Emissions Trading Scheme is an essential part of the EU Climate Change policy and that the success of this policy is important not only for the EU itself but also from a World perspective.