

IRIS Kyoto  
Innovative Risk Coverage and  
Financing in CDM Project in  
India and Morocco



Selected Difficulties & Opportunities  
Thomas VERHEYE  
European Commission, DG Environment  
JREC Secretariat

Clean Energy Financing

Selected Opportunities



The EU ETS Linking Directive  
The JREC Patient Capital Initiative  
[The EIB Financing Facilities]

## EU ETS ?



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## EU Emissions Trading Scheme (1/2)

- **Installation-based**
- **Domestic cap and trade programme,**
- **Covering**
  - ca. 50% of the EU's CO<sub>2</sub> emissions
  - over 10,000 installations
  - 5 sectors (power generation and other combustion, oil refineries, steel, cement, lime, pulp and paper)
- **Installations can trade allowances across the EU**
- **Companies can decide where reductions can be made**
- **Contributing to EU KP targets at the lowest economic costs**
- **Expected to reduce EU compliance costs by ca. 1/3rd**

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## EU Emissions Trading Scheme (2/2)

- **Timing:**
  - Initial EU phase: 2005 - 2008 (3 years)
  - KP First Commitment period: 2008-2012 (five years)
- **Provides for linking with emissions trading schemes in other industrial countries that have ratified the Kyoto Protocol e.g. Canada, Japan, Russia, Ukraine, New Zealand, Switzerland, Norway,...**
- **Foresees linking to provide impetus to Clean Development Mechanism (CDM) and Joint Implementation (JI) by allowing the use of these credits to be used by ETS installations**

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## The EU ETS Linking Directive



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## Project-based Mechanisms

### Linking JI and CDM to the EU ETS:

- Proposal adopted by Commission on 23 July 2003 and now in co-decision of EP and Council
- Adoption pursuant to first reading agreement between EP and Council expected 1<sup>st</sup> half 2004 (EP vote 21 April)
- Transposition at the latest 12 months after entry into force.

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## Why Linking?

- Contribution to host countries' Sustainable Development
- Promotion of the transfer of environmentally sound technologies to third countries
- More compliance options for companies
- Reduction in allowance price and compliance costs
- Increase liquidity of the EU emissions trading market
- Stimulate demand for JI and CDM credits
- But.....preserve the environmental integrity of the trading regime

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## Key elements of the Directive (1/2)

- How to link?
  - *Direct use* JI and CDM credits by operators in the EU ETS for compliance with their targets
- When to link?
  - Under KP:
    - JI - reductions as of 2008
    - CDM - reductions as of 2000
  - link with EU ETS:
    - CDM from 2005 (start of EU ETS)
    - JI from 2008 (start of KP 1<sup>st</sup> commitment period)

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## Key elements of the Directive (2/2)

- MS may allow use of all project credits issued under UNFCCC/KP rules, except:
  - Nuclear (up to 2012)
  - Sinks (to be included in review in mid-2006)
- How much to link?
  - Community and MS have to respect KP complementarity requirements
  - MS to set an installation-specific cap (from 2008) to be published in National Allocation Plan

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## JREC ?



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## JREC —What ?

- WSSD “**Declaration on the Way Forward for RE**”
- Supported by **Coalition** of “like minded” countries ...
- **committed** to...
- achieving an **urgent & significant** increase in the share of **renewable energy** (WSSD)
- co-operating **on the basis of targets & timetables** for
- developing **markets & guiding investments**

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# JREC —Who ?

## 87 Members

- EU (25)
- EU EITs (3)
- Other ICs (6)
- Latin Latin America (5)
- Africa (10)
- Middle East & Asia (5)
- AOSIS Pacific (12)
- AOSIS Caribbean (14)
- AOSIS Atlantic (2)
- AOSIS Indian Ocean (4)

**European Commission Secretariat  
20 Supporters**

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# JREC —Focus & Initiatives?

## RE Targets

**Enabling  
Regulations &  
Integrated Energy  
Policies**

**JREC  
Renewable Energy  
Policies & Measures  
Database**

International  
Energy Agency  
REU

## Risk Capital

**Guiding Investments  
Developing Markets**

**JREC Patient  
Capital Initiative**

Impax Capital  
ERM  
SJ Berwin

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# The JREC PCI



## JREC PCI — What ?

Renewable Energy  
PP Equity  
Global FoF

<u>Sponsor</u>	<u>Paid-in Capital</u>	<u>IRR</u>	<u>Paid-in Capital</u>	<u>IRR</u>
Non-Commercial	75	0%	25	0%
Commercial	25	20%	75	20%
<b>Patient</b>	<b>100</b>	<b>5%</b>	<b>100</b>	<b>15%</b>
<i>Pay-Back</i>	<i>20 yrs</i>			<i>7 yrs</i>

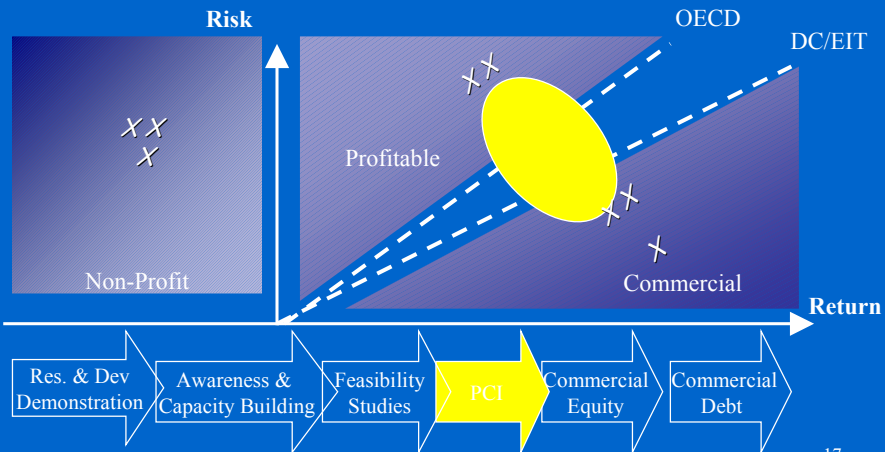
Type A: Non-Commercial (Gvts, Foundations, Private)

Type B: Commercial (Public IFIs, Foundations, Investment Funds, Banks, Corporates)

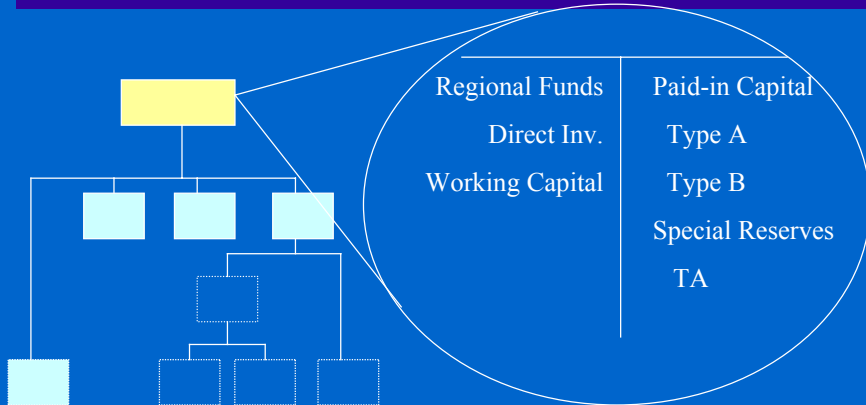


# JREC PCI – Why?

*Bridging the Gap*



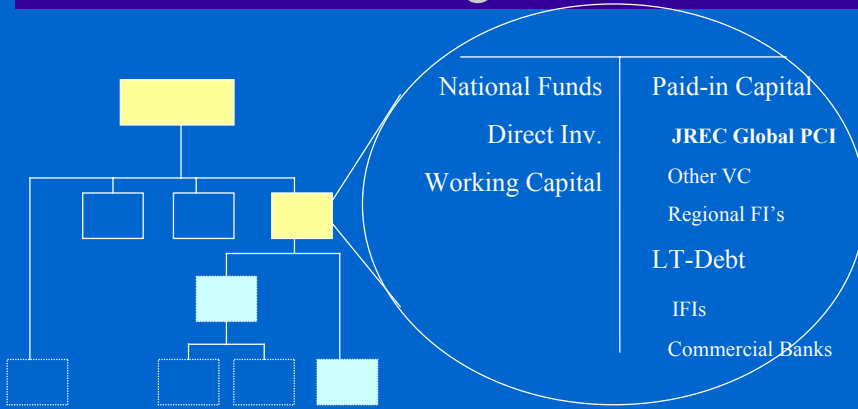
# JREC PCI — Uses & Sources of Funds?



Type A: Non-Commercial (Gvts, Foundations, Private)

Type B: Commercial (Public IFIs, Foundations, Investment Funds, Banks, Corporates)

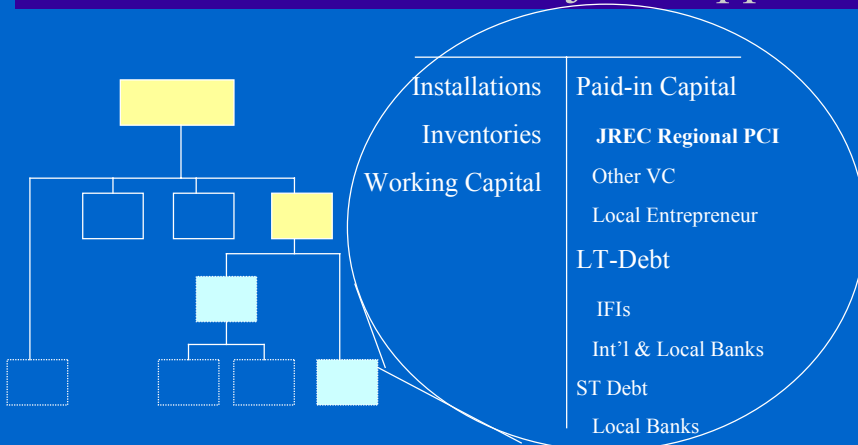
# JREC PCI — Leverage?



Type A: Non-Commercial (Gvts, Foundations, Private)

Type B: Commercial (Public IFIs, Foundations, Investment Funds, Banks, Corporates)

# JREC PCI — SME & Project Support?



Type A: Non-Commercial (Gvts, Foundations, Private)

Type B: Commercial (Public IFIs, Foundations, Investment Funds, Banks, Corporates)

[The EIB Financing Facilities]

