

Green subsidiarity from a carbon economy perspective

The price of policy risk

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Presentation Outline



The corporate carbon liability to 2012

The public carbon liability to 2012

Balancing green objectives and carbon liabilities

Green burden sharing?

Conclusions

The EU Directive and the Kyoto Protocol

KYOTO

Biggest compliance agreement ever

38 Caps

Global Warming, Global Measures

6 gases*

Flexible Mechanisms for
effective and efficient solutions

EU Burden Sharing, EU Driver



EU DIRECTIVE

European Directive, National Law

29 Caps

Global Warming, Global Measures

Just CO₂ to start

Redefined Joint Implementation, narrowed
Clean Development Mechanism

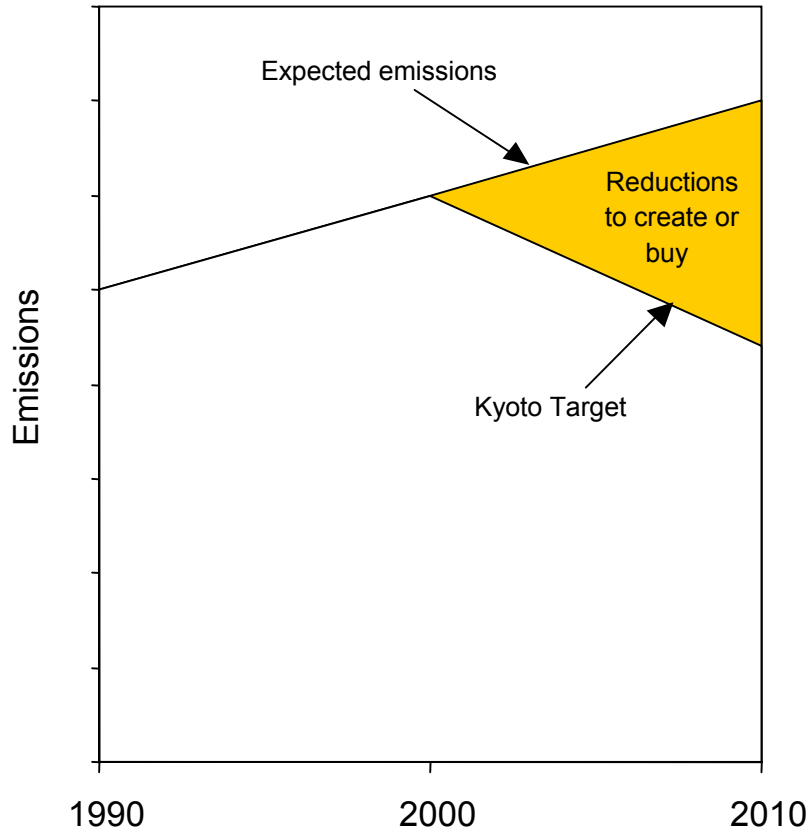
Setting Global Standard

Linking opportunity (Japan, Australia)

* Carbon dioxide, Methane, Nitrous oxide, Hydrofluorocarbons, Perfluorocarbons, Sulphur hexafluoride

Emissions Trading: Cap and Trade concept

Opportunities for existing and future activities within the EU ETS



Caps are Emission Limits in tCO₂e, per country under Kyoto, '97 per installation under Brussels, '03

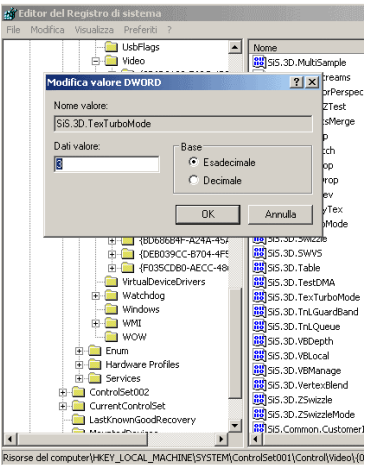
By Definition Short Market

Credit eligibility known with Linking Directive

Accession countries likely to have less stringent caps and hence potential sellers.

Implied triple balancing act with two stage corporate road to Kyoto targets and single stage public road to Kyoto.

Current division corporate road: 50 Mtonnes first period to 200 Mtonnes in second period, depending on public reduction achievements. Too little to invest now, too much to ask later?



Registries and trading charges

Each covered installation requires a Holding Account, a Compliance Account and a Trading Account

No pan European standard has been set for registry charges

Pool Allowances and strategy, optimising charges by operating from most attractive re: charges and fiscal treatment (VAT)

Entity transfers allowed. Not formally legislated but simple transfer contracts probably sufficient

Brokerage currently around 1% per deal but varies. May reduce with larger volume trading

Accounting example of Asset to Liability 2005

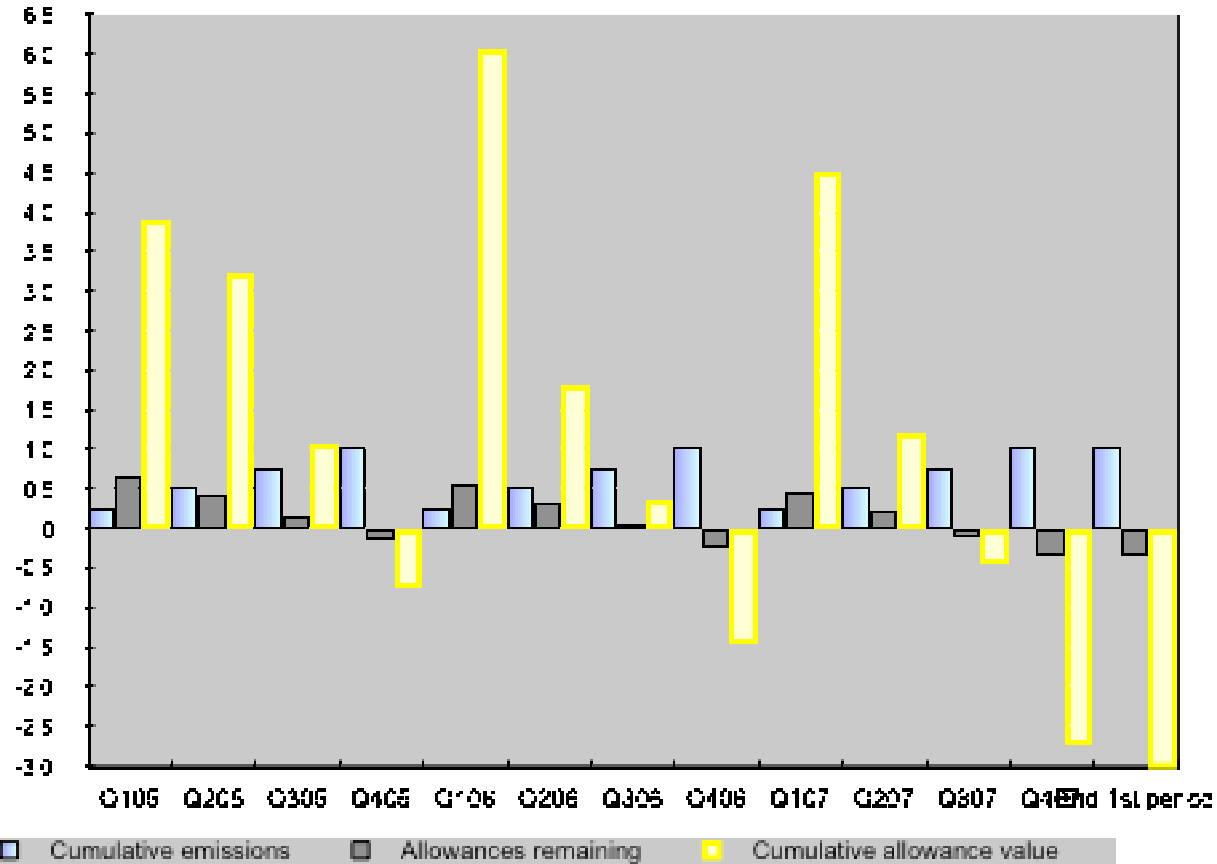
Estimate CO₂ asset (IAS 38 Intangible Asset measured at fair value with all changes recognised in profit and loss. RECOMMENDED)
 Monitor CO₂ liability (IAS 20)

Emissions per year = 1MtCO₂

Total allocation per year = 0.9MtCO₂

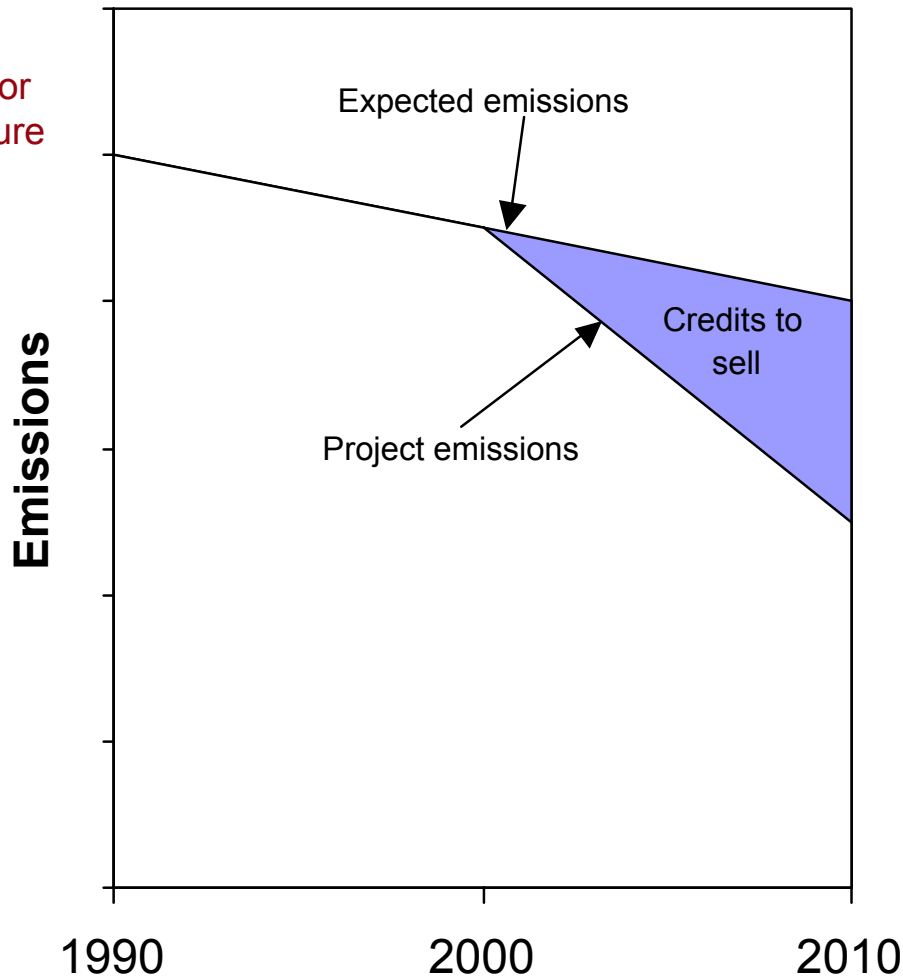
Value asset on allocation ~ Euro 7 million

Value final short position ~ Euro -3 Million



Flexible Mechanisms: Importing Credits

Opportunities for existing and future activities in Developing Countries



Clean Development Mechanism and Joint Implementation

The baseline describes emissions without project (CDM Executive Board approval)

Reductions from the baseline = tradable compliance tools

CERs bankable into the Second Trading Period

Prices track EUAs at slight discount

Competition for 'Green Capital Investment' by corporations for Eurocarbon targets, EU 25 governments for Kyoto targets AND EU 25 governments for national green targets.

Compare Norwegian, Polish and Indian parks with vastly different displacement values as well as power delivery potential.



Timetable and political variables

Kyoto Ratification in Buenos Aires 2004, or lack thereof..

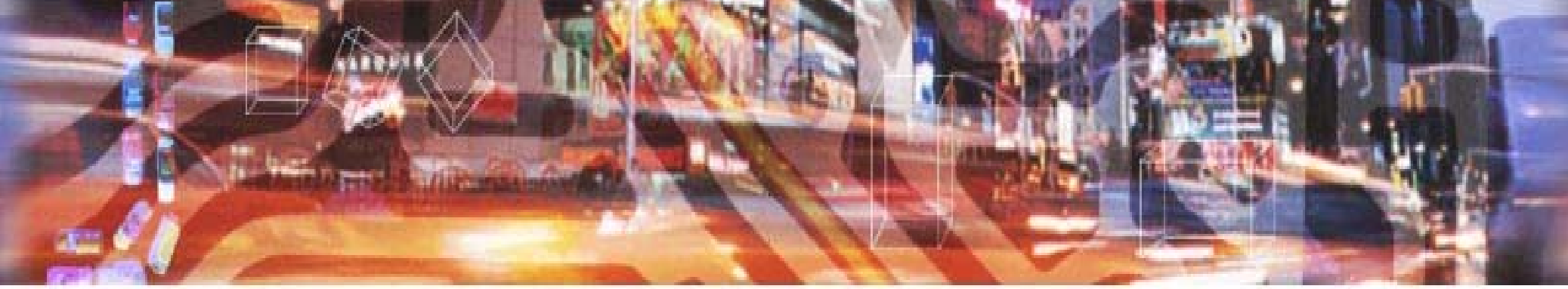
An investment driving corporate carbon short in 2005, or lack thereof..

An overriding European interest in economic efficiency and effectiveness with European green review 2006, or lack thereof..

A pan European liberalised and interconnected physical power market 2007, or lack thereof..

Political commitment to broader than carbon environmental benefits of green power and broader than domestic measures 2008, or lack thereof..

2012 targets firm, time to action remains uncertain, will it be from 2005 or 2008 onwards?



The Fortis Merchant Bank Role



Environmental Products Banking at Fortis

A core environmental products team horizontally integrated across organisational boundaries and professional disciplines

MeesPierson InterTrust

Providing CER and EUA Portfolio Holding Services and pan-European carbon position netting and administrative services

Using superior administration and interfacing for a user friendly interaction with registries

Corporate & Investment Banking

Financial services including carbon value, corporate active carbon exposure management

CIB Project Finance

Incorporating carbon price in due diligence and Discounted Cash Flow Models, financing green power (second largest world financier of wind) and carbon reduction projects.

Global Markets

Environmental Products Trading Desk with CER and EUA lines and knock on impact advice to other desks, particularly energy desks.

Conclusions



The EU ETS will be a success when corporations start delivering effective and efficient carbon reductions across the EU 25, getting the EU on track towards its Kyoto targets.

As such it can be the 'proof of concept' for establishing a harmonised green system, including not only green power but also e.g. environmental zoning, other emissions to soil, water and air, as well as other externalities in for example European agriculture with its 50bn annual budget.

However, the broader than carbon benefits of green power depend not only on location of generation but also, and perhaps particularly, on final destination and therefore a European green 'certificate' system will always have to remain linked to the electricity itself.

Contacts



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