

16:15-17:30 - Panel 3 - Etoile

# “Carbon Trading: A Market Mechanism to Fight Climate Change”



**BNP PARIBAS**

**Climate Change Capital®**



European Climate Exchange

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# **Active Carbon asset Management**

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# Content

1. BNP Paribas Group and ECEP
2. Context: what are carbon assets
3. Characterization of carbon assets
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5. How to leverage on Carbon assets
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## **BNP Paribas Group and ECEP**

- **BNP Paribas is the leading Euro-zone bank**
  - Market capitalisation of €60.0bn, over €28.5bn in shareholders' equity
  - Net profit of €5.8bn in 2005, a ROE of 20.2%
  - Present in 85 countries, over 110,000 employees
- **BNP Paribas Energy Commodities Export Project (ECEP)**
  - A Department of the Corporate and Investment Banking (CIB) of BNP Paribas
  - Around 1,300 dedicated professionals with worldwide coverage
  - A whole range of financing products and advisory services dedicated to the energy and natural resources sectors (structured finance, project finance, trade finance, export finance, derivatives)
- **ECEP consistently ranks in the top 3 worldwide with proven leadership**
  - "World's Best Trade Finance Bank" by Global Finance - 2005
  - "World's Best Project Finance Oil & Gas Bank" by Global Finance - 2005
  - "Best Commodity Bank" by Trade Finance Magazine - 2005
  - No.2 Global Mandated Lead Arranger in Project Finance for both Dealogic and Thomson Financials in 2005

# Different classes of Carbon assets

Two main classes of carbon assets:  
those **allocated** and those **generated**



## European Allowances (EUA)

- Allocated by governments to companies
- 12,000 sites under the scheme
- 2.2 bn EUA allocated, for free each year
- €40bn worth

## « Carbon credits » (CER, ERU)

- Issued by the United nations through project-based mechanisms
- 3,000 projects in the pipeline
- Can be used for compliance under the EU ETS and other trading schemes
- Expected 2-3 bn units by 2012

## ***Carbon assets are high quality assets as they are:***

- Issued by governments and international bodies (UN)
  - i.e. Sovereign or AAA
- Easily transferable
  - Registries set up
  - Through the European and International Transaction Logs
- Exchangeable on increasingly liquid markets
  - EU ETS, spot and forward transactions
- Exchanged in hard currency
  - Euro, US\$, JPY...
- Purchased by highly rated counterparties
  - Final users are large European/Japanese/North American utilities and industries

## ***EUA assets are small but not negligible***

- EUA assets are small but not negligible compared to the balance sheet of European industries or to the European Money market

### **Arcelor**

- Carbon assets: €1.0bn
- Total assets: €35bn  
⇒ **3%**
- Market Cap.: €22bn  
⇒ **5%**

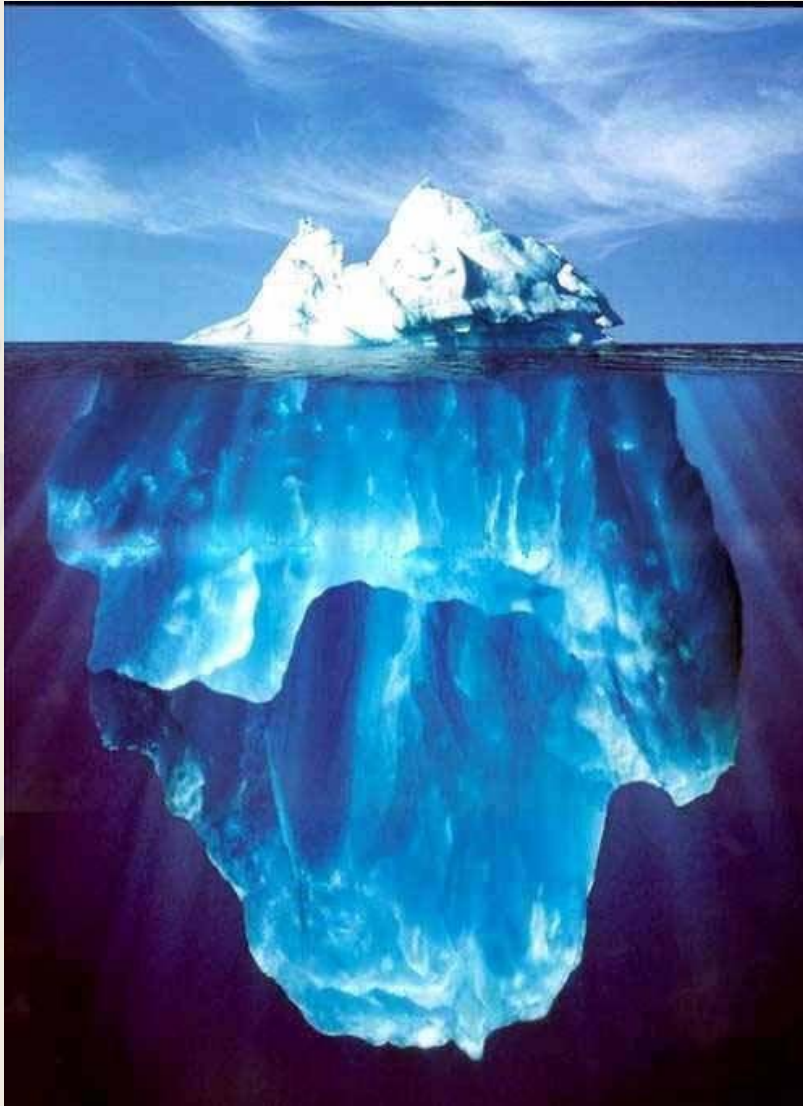
### **RWE**

- Carbon assets: €2.6bn
- Total assets: €52bn  
⇒ **5%**
- Market Cap.: €35bn  
⇒ **7%**

### **at European level:**

- Carbon assets: €40bn
- ECB M1: €3,500bn  
⇒ **1%**

## How Carbon assets are considered by companies



- Most companies consider EUA as a compliance tool
  - They focus on adjusting their marginal position
- Some very large companies are active on the markets on a daily basis
  - Most companies adjust once a year or period



The asset is not managed actively

# How to leverage on Carbon assets?

- **EUA-based lending**
  - Allocated EUAs as collateral
  - Can be rolled-over several years/periods
- **CER-based lending**
  - Carbon assets generated by projects as lending base
- **Dynamic management of a part of the allocation**
  - Derivatives instruments such as swaps, options...
- **Cross commodities trades**
  - Example: Carbon-adjusted gas and coal
- **Leverage through Project-based Carbon Credits (CDM & JI)**
  - Reduce compliance costs with Project-based credits
- ...

# Conclusions

- 3 main ideas to remember
  - Carbon is the company's best asset (after cash)
  - Carbon can affect significantly the P&L (compliance costs / windfall profits)
  - Carbon must be managed actively

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