

EUROPE

A New Dawn for the Sustainable Economy and Electromobility in Europe



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In September 2020, the European Commission proposed to raise the greenhouse gases (GHGs) emissions reduction target to at least 55% in comparison to those GHG levels that existed in 1990. The prior 2030 Climate and Energy Framework had established three key targets: the reduction by 40% of GHGs as compared to 1990; a 32% renewable energy share; and 32.5% energy efficiency improvement. This was to be achieved by virtue of the EU Trading Emissions Scheme and a combination of regulations across a number of sectors.

These targets have been particularly challenging for the transport sector, which accounts for approximately one quarter of the GHGs emissions in the European Union. Within that quarter, the road sector is responsible for over 70% of emissions. It is therefore not surprising that the shift towards low emission mobility has been an area of particular focus and investment for governments, local authorities and industry alike. The key elements for encouraging this shift include improving the efficiency of the transport system, facilitating the shift towards low-emission, alternative energy for transport, and encouraging the uptake of zero-emission vehicles.

In considering the impact of electric vehicles (EVs) on the environment, the European Environmental Agency (EEA)

has placed significant focus on the full life cycle of the battery manufacturing process since, whilst the actual use of the batteries is efficient, there are significant environmental considerations relating to, in particular, the sourcing and extraction of the constituent critical raw materials, the power required for the EV battery production process, and the eventual recycling and reuse capabilities.

“ **The focus is on extending battery life and on applications for batteries on expiry of their useful life to maximize efficiency. Northvolt has completed a raise of \$600M to support the development of a full-scale recycling facility that aims to secure 50 percent of the raw materials from recycled batteries.** ”

Set against this wider European strategy, it is fitting that Northvolt was established back in 2016 with “the mission to build the world’s greenest battery to enable the European transition to renewable energy.” Led by former senior executives from Tesla and TODA-BASF, Northvolt closed its initial funding round of \$12M in January of the following year, and in October announced the construction of its gigafactory, Northvolt Ett, in Skellefteå, Sweden alongside a demonstration factory and research facility, Northvolt Labs. It was not until June 2018, when Northvolt received

the environmental permit for Northvolt Ett, however, ground preparations and construction for the 16GWh factories commenced. The factory will have a potential annual output capacity of more than 20 GWh and is expected to start production in 2021. Northvolt is targeting a 25% market share in Europe by 2030, with 50% of raw material secured from recycled batteries.

A further \$1B of equity was raised in June 2019, by which time work had also begun on raising and structuring the \$1.6B multi-sourced project financing for the development, construction and operation of this electric vehicle battery manufacturing facility. This involved a large number of global financing institutions, including ECAs, pension funds and commercial banks, who entered into financing agreements with Northvolt Ett in July 2020. Equity investment was sourced from, amongst other financial and industry investors, Volkswagen, BMW and Goldman Sachs.

As would be expected from such a vertically integrated project in this sector, there has been significant focus on extending battery life and the possible applications for such batteries on expiry of their useful life, in order to attain maximum efficiency. To this end, Northvolt has also completed a further equity raise of \$600M to support, amongst other initiatives, the development of a full-scale recycling facility to aid in their goal of securing 50% of the raw materials from recycled batteries. BMW, an equity investor and one of the factory’s customers, entered into a long-term supply contract for the battery cells as part of their strategy to have 25 electrified models on the roads by 2023. Another key equity provider and customer, Volkswagen (VW), has also formed a joint venture with Northvolt to start building a further production facility in Lower Saxony in 2020. VW has also stated that it is committing more than €30B to the electrification of their vehicles by 2023, with almost 70 new electric models planned to be brought into the fleet over the next decade.

After a particularly busy first half of 2020 spent progressing and executing the documentation for the bespoke project financing, and in spite of the economic and physical challenges presented by the COVID-19 pandemic, the very end of July saw the execution of the finance documents for a US\$1.6B financing involving KEXIM, NEXI, the European Investment Bank, Euler-Hermes, BPI France, commercial banks led by ING, various pension funds and other public financial institutions. This increases the amount raised by Northvolt Ett for Europe's first home-grown Gigafactory for lithium-ion batteries to more than \$3B. The fact that such a broad range of high profile institutions have committed to the terms of the financing for this new industry is a clear signal of their growing support for sustainable energy businesses. The Gigafactory will be operated using renewable energy from wind and hydro sources, resulting in a further reduction in carbon emissions from the EV

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life cycle. Production is expected to commence in 2021 with full completion of the factory by 2024.

Milbank's role in this landmark financing involved advising, amongst others, Denmark's largest commercial pension company, PFA Pension, and another of their largest pension providers, Danica Pension, on the structuring and negotiation of a subordinated loan agreement

which formed an important part of the US\$1.6B complex, multi-sourced, first-of-its-kind financing structure. The team was led by London partner John Dewar and senior associate Suzanne Szczetnikowicz, with associate Yi Ming Chan and assistance from German Leveraged Finance partner Thomas Ingenhoven and associate Odilo Wallner.

