

The Italian Carbon Fund in the Mediterranean Context

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Le MDP dans les pays Sud méditerranéens, forces et faiblesses,
défis et perspectives - liens avec les projets d'EE & d'ER*

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Italian Ministry for the Environment and Territory
Department for Environmental Research and Development



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Why a Carbon Market?

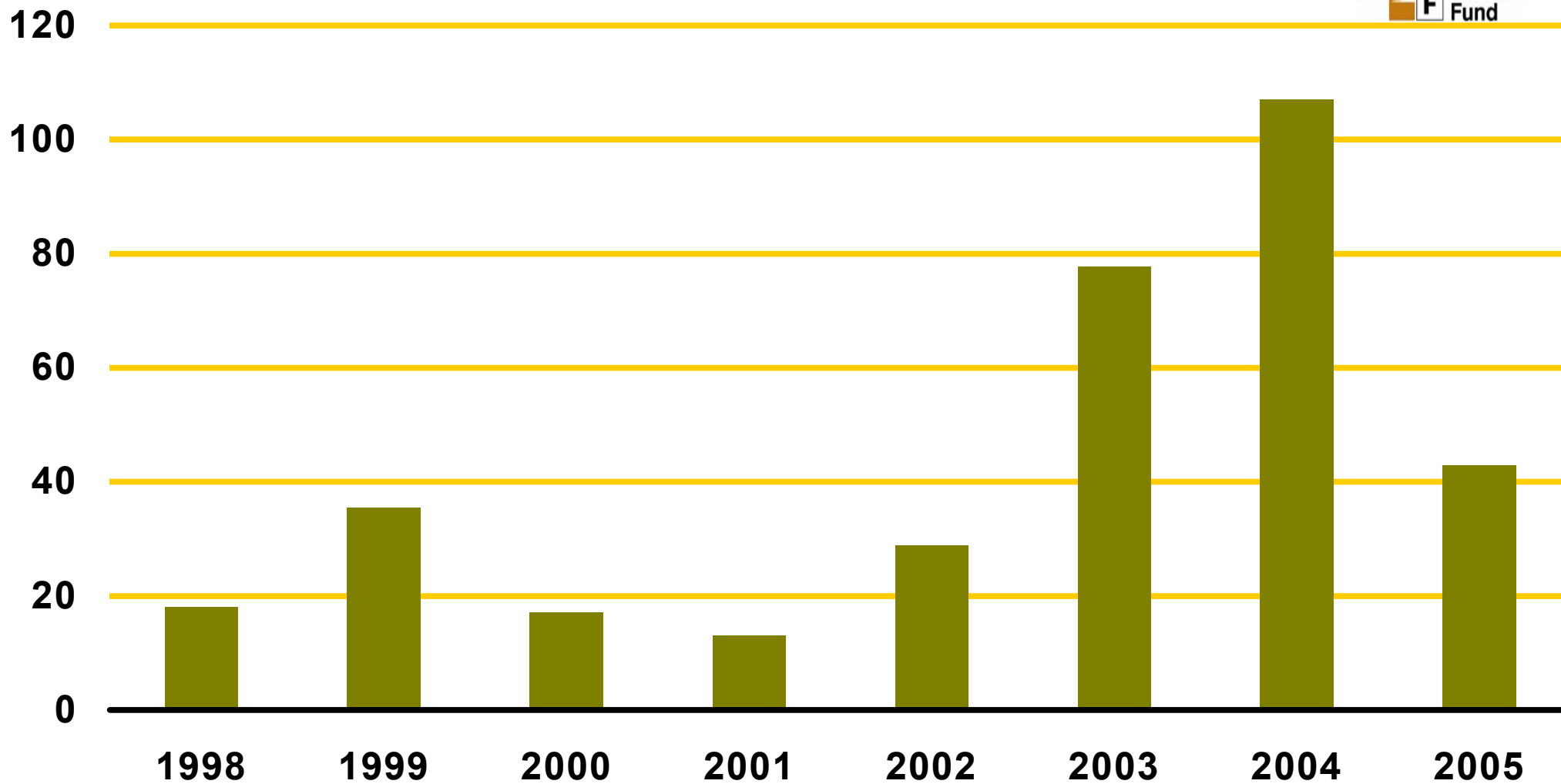
- Regulations, present or anticipated, create constraints on greenhouse gas (GHG) emissions of Governments and firms. E.g. Kyoto Protocol obligates industrial Parties to reduce emissions by average 5 % below their 1990 emissions over 2008-12
- Since GHGs mix in the atmosphere, it does not matter where emissions are reduced
- Compliance with regulation can be achieved through in-house (“*make*”) or flexibly through purchase (“*buy*”) “GHG commodities”, giving rise to the → **Carbon Market**

Volume Traded Through Projects CDM-JI

(in million tCO₂e)



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Source: World Bank, 2005
State and Trends of the Carbon Market

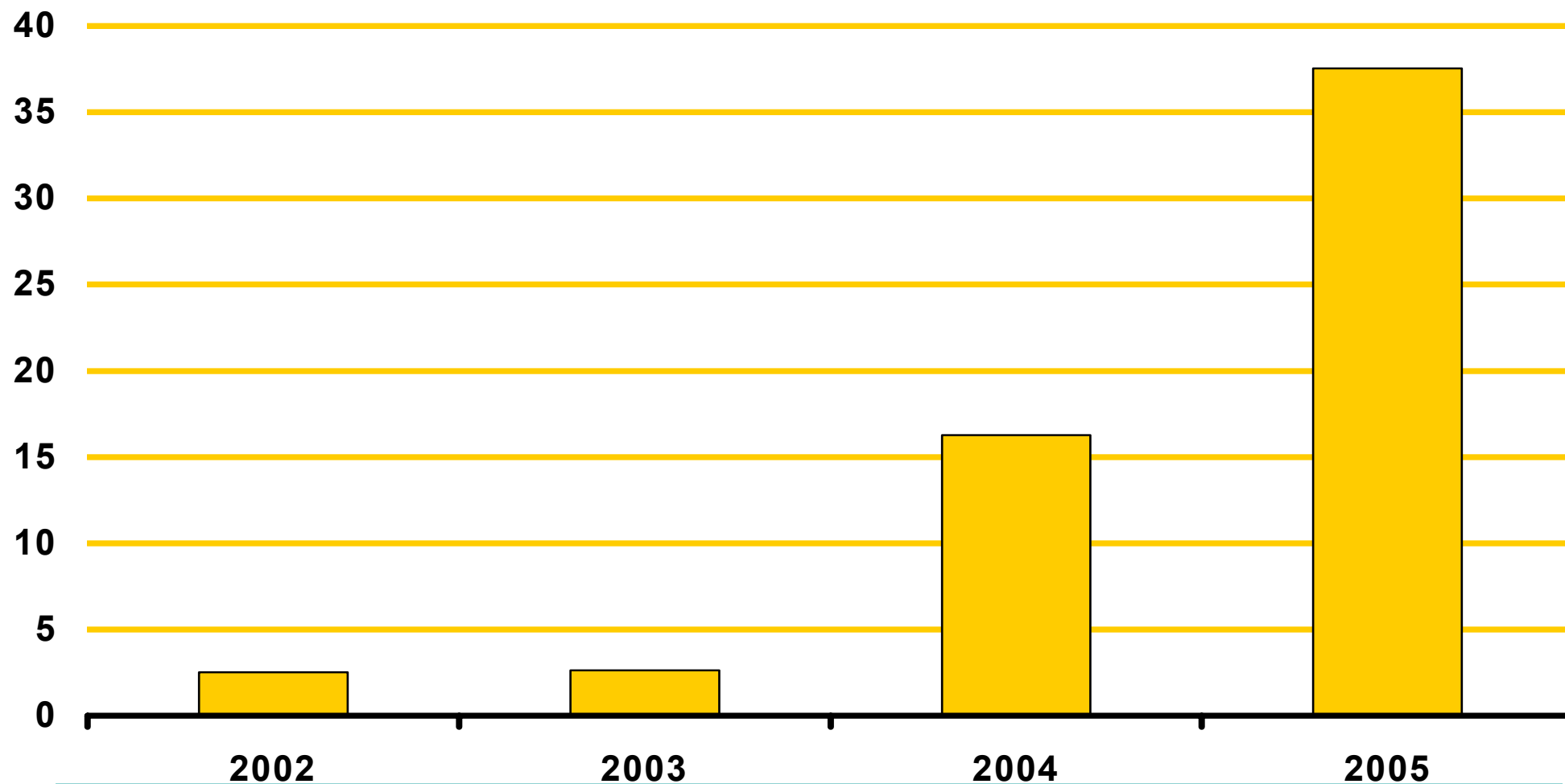
(Jan-Apr)



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Allowance Markets (in million tCO₂e)



Source: World Bank, 2005

(Jan.-March)

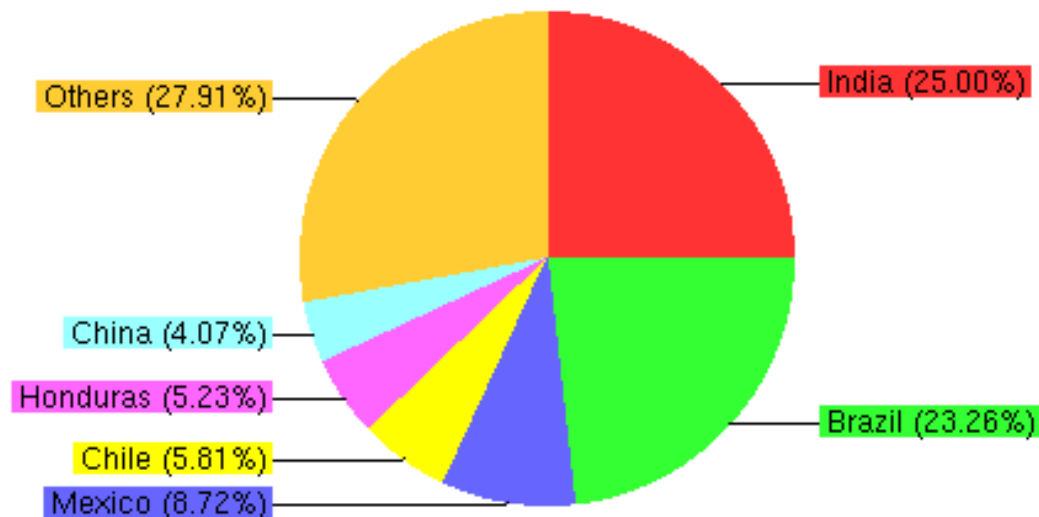
CDM projects registered to date



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Registered project activities by host party, Total: 172



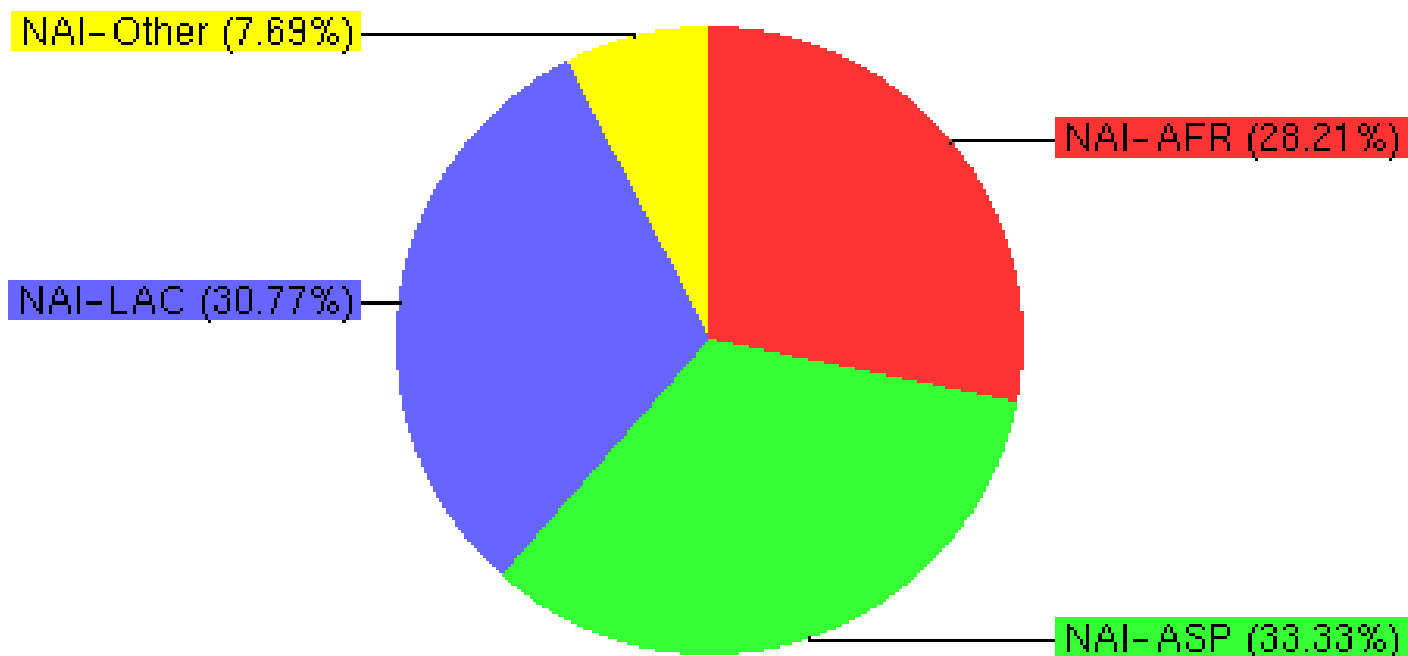


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DNAs in place

Non-AI DNA by region. Total 78



<http://cdm.unfccc.int> (c) 04.05.2006 10:33

CDM potentials in the Mediterranean Egypt



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- 2 ERPAs signed
- First LoA to be signed
- 3 Letters of No Objection issued
- % of CERs to support socio-economic activities

Project type (PDD)	Number	Volume 2012 (MtCO ₂ e)
N ₂ O	1	9.9
EE	7	3.08
Waste	1	2.63
RE	2	1.84



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Morocco

- 2 CDM projects registered by Executive Board
- 2 CDM projects awaiting for registration
- 20 LoAs issued

Project type (PDD)	Number	Volume 2012 (MtCO ₂ e)
RE	4	1.6
EE	1	0.6
Biogas	1	0.6

Algeria



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- Kyoto Protocol ratified
- DNA in establishment



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Israel

- Kyoto Protocol ratified
- DNA in place
- 1 CDM project registered by the Executive Board



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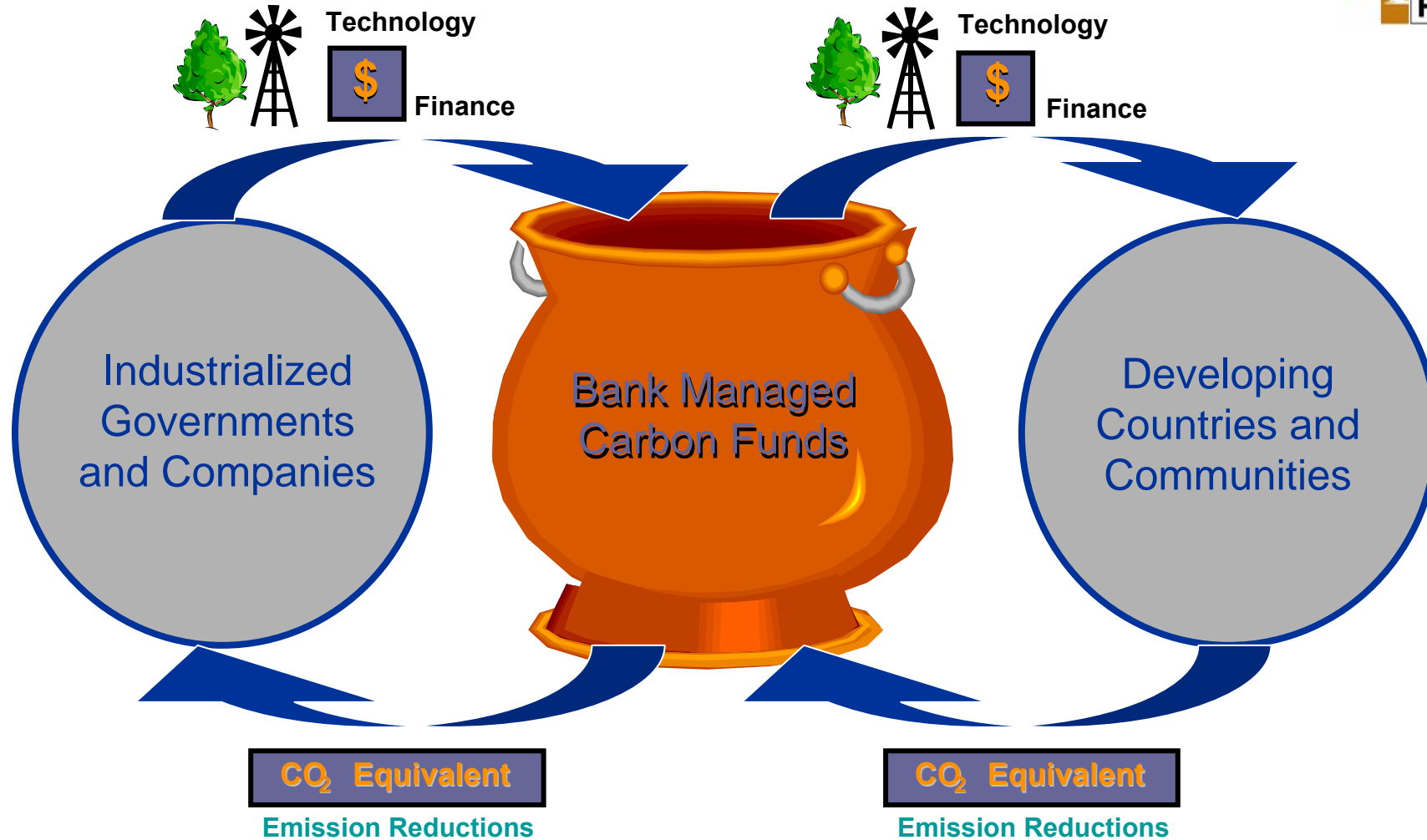
Tunisia

- Kyoto Protocol ratified
- DNA in place

How carbon funds work



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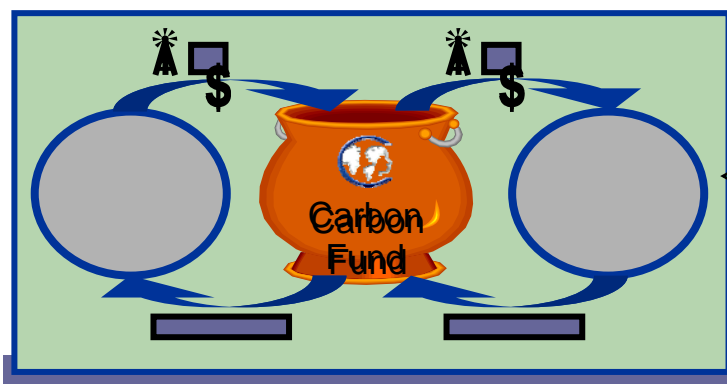
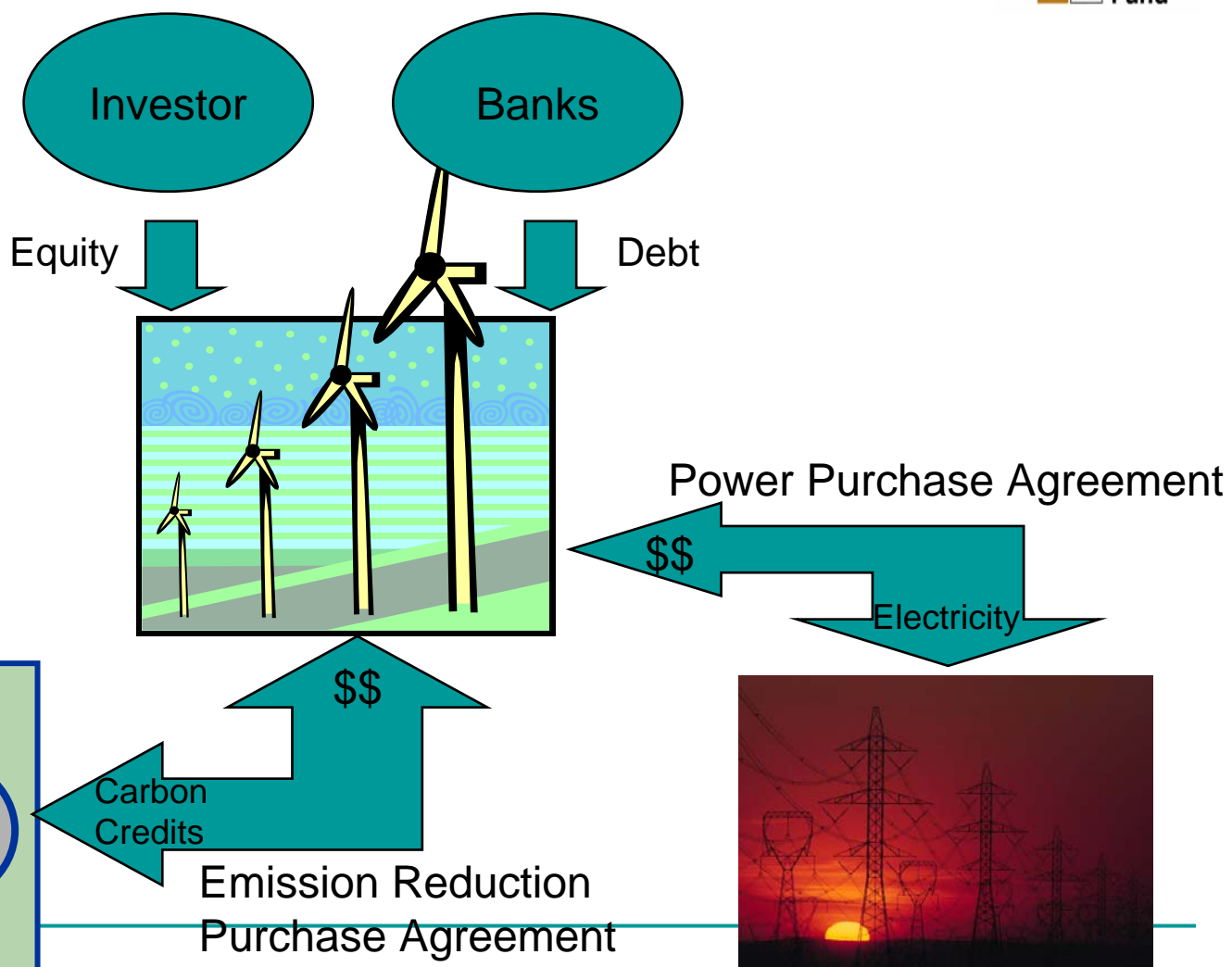


Role of carbon funds in projects

Carbon Funds do not invest in projects. They buy credits.

Upfront payment as "Equity"
Less than 25% of contract

Collateralization of ERPA





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Impact of carbon finance (i)

Increased cash flow boosts returns:

Technology	Δ IRR (%)
■ Hydro, Wind, Geothermal	0.5 - 2.5
■ Crop / Forest Residues	3 - 7
■ Biomass, Methane	5 - 15 >

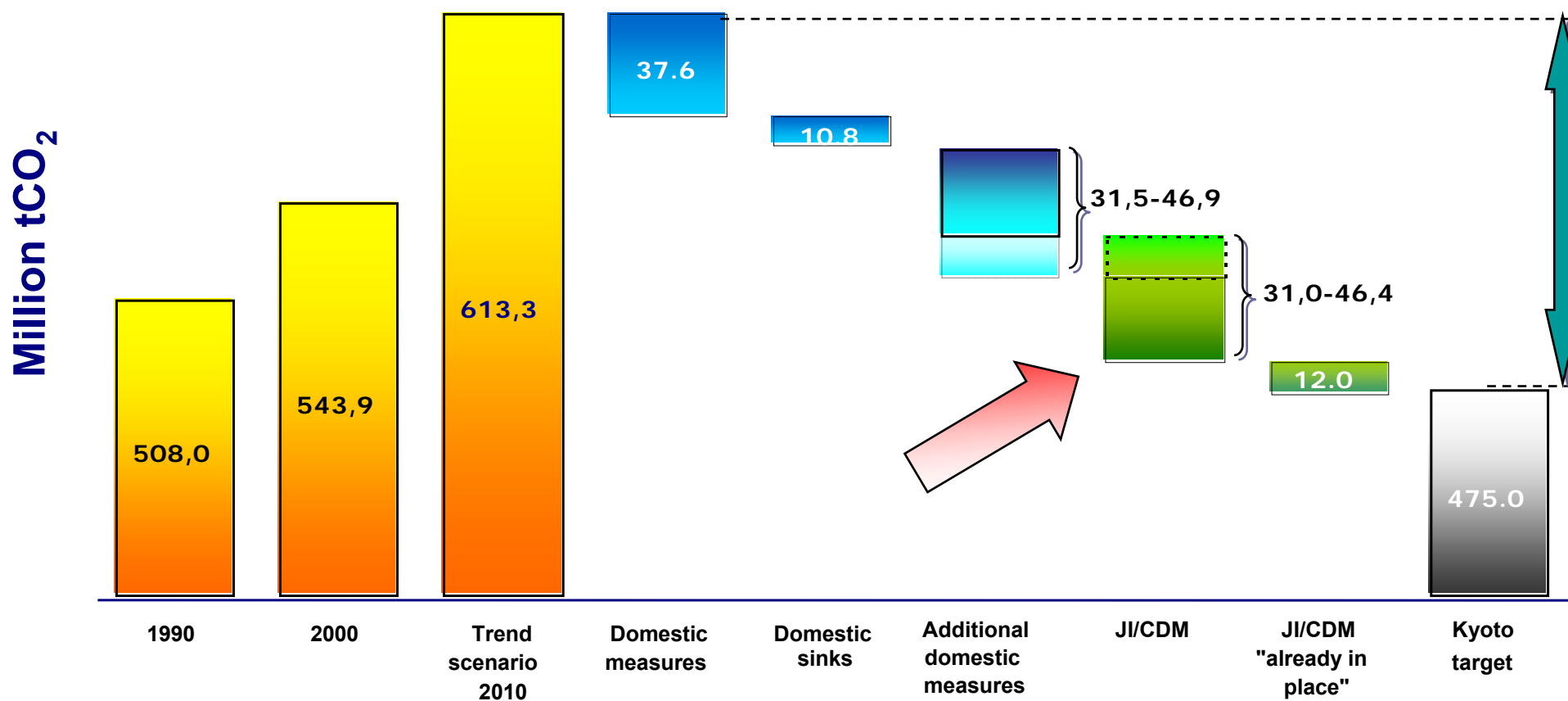
Contribution to project IRRs at \$4/tCO₂e



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National Action Plan





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Commitment of the Italian Ministry for the Environment



\$7.7 M out of \$120 M



\$45 M actual capitalisation. \$80 - 100
M 2006



\$2.5 M out of \$ 58 M



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ICF - objectives

- Cost-effective purchase of emission reductions (ERs) for fund's participants
- Facilitating access for Italian enterprises to the project-based Kyoto mechanisms
- Contribution to Non-Annex I capacity building through CF-Assist Plus

Overall goal:

- Promotion of investments in climate protection
 - Transfer of modern climate-sound technologies
 - Contribution to sustainable development by leveraging investments also from the private sector
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ICF concept (i)

The ICF is a **Purchase Fund** (operational as for March 2004)

- Purchase of project-based emission reductions (ERs)
- Additional income flow for climate protection projects
 - Improved cash-flow and return on investment
 - Increased attractiveness to equity providers and lenders (“bankability”)

No financing function (i.e. financing of project investments through the capital market)



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ICF concept (ii)

- Purchase of project-based emission reductions (ERs) at competitive prices (\$7-8)
- Purchase period initially up to 2012 (with option to extend)
- Payment on delivery on the basis of a long-term contract (pre-financing possible in individual cases)
- Distribution of credits “*pro quota*” to fund’s participants (Italian institutions and private firms)



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ICF project selection (i)

General framework:

- Kyoto Protocol/Marrakech Accord
- Internationally accepted environmental standards (e.g. WB Guidelines, NSDPs, PRSPs)
- Guidelines from Fund's participants



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ICF project selection (ii)

No specific limitations as for project types but exclusions of (in line with the KP):

- Nuclear power projects
- Large hydro power projects

Project size: generally no limitations but transaction costs!



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ICF project selection (iii)

Generally no regional limitations

- No more than 50% of the total capitalisation in one project
- Preference to projects in Mediterranean Region, Balkans and Middle Eastern countries, China



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Portfolio Italian Carbon Fund (i)

Project Name	Project Description	Total ERs	
		ICF ERPA	Total ERs
Tunisia: gas recovery and flaring for 9 landfills	To install gas recovery and flaring systems in 9 landfills	2,300,000	4,400,000
Guatemala Montecristo Hydro (ENEL)	13 MW hydro electric on the Samala river	320,000	553,000
Egypt: Cairo North MSW	Rehabilitation and upgrading of the existing sorting and composting plants at Kattamia. Construct a sanitary landfill incl. landfill gas capture and flaring	1,500,000	3,000,000
Brazil: Sanitary Landfill in Natal	Methane recover from the existing and new landfill with the electricity capacity of (7 MW)	850,000	3,900,000
Egypt: Delta Nitrous Oxide removal	Add-on modification to an existing Nitric Acid plant in Mansoura	2,500,000	7,774,284
China: HFC-23 destruction	Destruction of HFC-23 produced as a byproduct in HCFC-22 production	8,000,000	98,000,000
Nigeria: Aba Cogeneration	Install gas-fired cogeneration system to supply electricity and heat to industrial, commercial and residential customers in Aba.	1,200,000	2,000,000



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ICF portfolio (ii)

- Only included in portfolio potential projects for which a PIN/PDD has been reviewed by WB
- Italian Government has just reviewed and agreed on 14 projects, for a total amount of some 19 MtCO₂ by 2012



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Conclusions

- Mediterranean: big potentialities, few registered project activities
- Necessity of Capacity Building activities
- Necessity of further incentivisation policies for RE projects

Thank you!

www.italiancarbonfund.org

www.carbonfinance.org