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# Can carbon finance leverage additional financial resources for CDM projects?

[www.carbonneutralnorway.no](http://www.carbonneutralnorway.no)



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# Norway - a major CER buyer

- MAJOR,
  - 2008 - 2012: 30-35 million tons in total delivered
  - Budget: NOK 7600 m – ca. EUR 870 m to buy CERs and ERUs.
- LONG TERM,
  - Supporter of GHG market mechanisms since Rio.
  - Norway to be carbon neutral by 2030
  - Authorization to contract CERs and ERUs also post 2012.
- RELIABLE,
  - As buyer Norway's AAA credit rating facilitates project financing.
- FLEXIBLE
  - All project types eligible
  - Flexibility in price structures

# CDM Project Cycle - Norway

Financial support

ERPA-can be signed at any stage

- Project Idea Note - PIN
- Project Design Document – PDD
- Validation by Designated Operational Entity – DOE
- Host Country Approval by Designated National Authority - DNA
- Registration by the CDM Executive Board (EB) of UNFCCC
- You have a CDM-Project!
- Your project starts production – Emission Reductions are produced
- DOE Verifies the production of Emission Reductions
- EB Certifies the Emission Reductions
- You have a Certified Emission Reduction – CER

Payment against delivery

# Carbon credit revenue – important to finance projects

- Decisive per definition (cfr additionality)
- Banks more conservative than before
  - Do not like price exposure
  - Sensitive to buyer of carbon credits
- Lock in revenues by writing an ERPA at an early stage
- Reliable counterparty important

# Payment upon delivery, use your future CER revenues to mobilize financing

- Project investors, including banks, ask for certainty
  - Fixed price or price floor
- Standard offtake contracts:
  - Buyer may assume the full risk of market price fluctuations
  - Seller assumes the full risk of project implementation

# Buyer perspective

- Market price level - closely linked to secondary CER (sCER)
- Risks and risk sharing
- Will look at the NPV of the contract
- Can provide various ways to structure the deal

# Examples of different ERPA structures (Payment on delivery)

- Fixed price (F)
  - Primary deals are traded with a discount to the secondary CER price
- Floating (indexed) price (I)
  - At the outset equal to selling “spot”
  - May lower transaction costs, especially to smaller projects
  - The calculation of the index may give a different exposure than a pure spot transaction.
  - Typically the index will be less than the “spot” price to take into account transaction costs and uncertainties, e.g. delays.
- Price floor + percentage of index (example)
  - Simple example:  $0,50 \cdot F + 0,50 \cdot I$
  - Buyer commits to F and I, seller sets the percentages based on his own needs
  - If  $F = 12$ , the floor price is 6.
- Other structures, e.g. Floor and ceiling combination

# Conclusions

- A good project should get access to financing, taking into account the revenue stream from selling CERs.
- Different players have different preferences.
- Find a buyer who can give you a tailor-made structure in order to meet your financing needs.
- No free lunch from innovative financing, the project needs to be sound.

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