

NEFCO **Annotated Agenda** SAO Meeting Stockholm March 2013 version 2013.02.19 **Addendum 2013.03.04**

Ag. X.x Update on the Arctic Council Project Support Instrument (PSI) *(Presented by NEFCO)*

Since the previous PSI Report¹ to the SAO 2012 Meeting, NEFCO can report the following developments:

1. Trust fund pledges, deposits and allocations for PSI currently stand at EURO 15.9 million.
2. The Russian Federation Ministry of Natural Resources and Environment (MNRE) informed NEFCO on the 19th of November 2012 (letter dated 15 November 2012) that the Russian Federation Inter-Ministerial Commission (IMC) for PSI had examined seven applications and selected JSC VTB Bank as the Russian Execution Agency (REA) for PSI projects to be implemented in the Russian Federation.
3. NEFCO is working with MNRE and REA for the signing of the necessary servicing agreement package between the PSI Fund Manager (FM, NEFCO), MNRE and REA. The servicing agreement package is expected to be signed during March 2013. This takes into consideration the IMC requirement that REA is to present by 20 March 2013, to the IMC for clearance, a draft annual plan of activities regarding the PSI projects in the Russian Federation in 2013, as well as a draft budget for 2013 for the administrative expenses of REA. Signing of the servicing documents between NEFCO, MNRE and REA will enable the entry into force of NEFCO's Cooperation Agreement with the Russian Federation. Once NEFCO has received the Russian contribution, it will proceed to make the PSI operational.
4. NEFCO convened a 2nd Preparatory PSI Committee of the Contributors (PPCOM) on the 20-21 of November 2012². The 2nd preparatory meeting had an informal discussion on strategic matters including criteria for projects to be financed from the PSI when operational. Any decisions on PSI matters are, however, to be taken by the PSI Committee (PCOM) when formally established in accordance with the SAO approved Rules of Procedure for the PSI Committee.

Priority Arctic Council Projects

5. The SAO decision in Haparanda on the 15th of November 2012³ inter alia:
 - Noted that items listed in P1-P10⁴ identified by the Fund Manager in the November 2012 Update on the PSI⁵ are approved Arctic Council project areas;

¹ NEFCO Update on the Project Support Instrument (PSI), version 2012.10.10; SAO Meeting Haparanda, Sweden, November 2012, ACSAO-SE03 Haparanda Doc. 3.9 Nov 2012

² Report of the PPCOM Meeting (Draft), AC/PSI/PPCOM/R2; 2012.11.21

³ Final Report; Meeting of Senior Arctic Officials, Haparanda, Sweden, 14-15 November 2012.

⁴ P1: The multilateral co-operation [project] on phase-out of PCB use, and management of PCB-contaminated wastes in the Russian Federation.

P2: Evaluation of Dioxins and Furans in the Russian Federation (including measures to reduce emissions/discharge/release).

P3: Reduction of Mercury releases from Arctic States (including the Russian Federation).

P4: Environmentally sound management of stocks of obsolete pesticides in the Russian Federation.

P5: Outreach and Implementation of the Cleaner Production Methodology in the Arctic Zone of the Russian Federation.

P6: Reduction or Elimination of Sources and Releases of Brominated Flame Retardants ("BFR" in Russia and the other Arctic States).

P7: Remediation of contaminated area of high priority by the Russian authorities (e.g. rehabilitation of Franz Josef Land).

P8: Programme to address mitigation of climate change, including projects addressing Short Lived Climate Pollutants ("SLCP" such as black carbon from diesel sources, methane, tropospheric ozone, HFC).

P9 Programme to fall under the envisaged Integrated Hazardous Waste Management Strategy (IHWMS). The projects may include those listed above in P1-P8.

- Projects within these areas are thus eligible for funding consideration if they have followed the appropriate Arctic Council and subsidiary body procedures including bringing the individual projects forward to the appropriate Arctic Council subsidiary body for approval;
 - Requested the Fund Manager to proceed with an appropriate assessment and development of these projects for future consideration of the PSI Committee for financing; and
 - Encouraged the Fund Manager to cooperate with relevant Arctic Council subsidiary body chair(s) to mobilize the PSI.
6. PSI project proposals are to follow the PSI Guidelines and governing Rules of Procedure. Regarding the practical processing, discussions with the PSI contributors⁶ envisage principally two routes for presenting AC Projects for possible PSI financing:
- a. Top-down: From an AC subsidiary body to NEFCO and REA – PCOM;
 - b. Bottom-up: From project owner to REA and NEFCO –AC subsidiary body - REA and NEFCO—PCOM; and
 - c. Both of these routes would include a two stepped presentation to the PCOM, if approved in the first round. The two staged process would start with a first step of “PCOM approval of concept/idea” that in turn would allow for further analysis and a second step of “PCOM decision” on whether to fund the investment as a fully financed PSI project.

PSI Programming: Criteria for Selection of Project

7. The PSI PCOM decision criteria are expected to include:
- The project has been approved being an Arctic Council project
 - Focus on action towards pollution prevention, abatement and elimination effecting the Arctic
 - Replicability
 - Capacity of project partners to manage and implement the project according to plan
 - PSI leveraging factor
 - Use of PSI financing
 - Maturity of project
 - Rationale for phased approach
 - Local approval
 - Risk assessment.

NEFCO is to revert with an appropriate draft document including template(s) and criteria, for consideration once a common understanding is achieved with the REA (and the MNRE) on the servicing agreement package. It is, however, to be noted that the project assessment template and criteria are to be used by the PSI Fund Manager (FM) for its assessment and presentation to the PCOM. The FM will continue its work to elaborate a PSI primer, template and criteria as guidance for applicants.

8. Detailed criteria for selection of AC Projects to be financed from the PSI are to be approved by the PCOM (Section 5, (b) of the Rules of Procedures of the PSI); and as decided by the SAO in March 2012, NEFCO shall ask the PCOM (when it is established) to clarify and make available the criteria for selection of AC Projects to be financed from the PSI.

Activities in the Russian Arctic and Sub-Arctic Regions

9. NEFCO also presented to the 2nd Preparatory PSI Committee (PPCOM) its on-going activities in the Russian Arctic and sub-arctic region of relevance to PSI funding. The PPCOM noted with appreciation

P10 Projects and subprojects of the Indigenous Peoples Contaminants Action Programme (IPCAP) implemented as a part of the IHWMS or mitigation of release of BFR.

⁵ NEFCO Update on the Project Support Instrument (PSI), version 2012.10.10; SAO Meeting Haparanda, Sweden, November 2012, ACSAO-SE03 Haparanda Doc. 3.9 Nov 2012

⁶ Report of the PPCOM Meeting (Draft), AC/PSI/PPCOM/R2; 2012.11.21

the on-going activities and encouraged the Fund Manager to share the relevant information with appropriate AC subsidiary bodies for further consideration and cooperation.

10. In the above context several Short Lived Climate Pollutants (SLCP) projects are under preparation and, subject to criteria applied and owner /stakeholder engagement, the projects will be prepared for relevant financing. Financing may also be sought from the Swedish SLCF Trust Fund with NEFCO. The SLCF Trust Fund, currently at SEK 2.55 million, is expected to contribute to funding of projects which reduce SLCF emissions that transports to and deposits in the Arctic. Projects identified by the AC project steering group on SLCF are to be prioritized.
11. NEFCO is currently preparing three (3) proposals for a near term processing with an AC subsidiary body. An appropriate selection of the SLCP Projects, taking into account the tentative PSI Resource allocation [2012-2015] strategic business plans⁷, is expected to be able to respond to the Arctic Council's expectation for a successful launch and operationalization of the PSI during 2013. The projects under preparation, summarized in Table 1 below, address mitigation methane, black carbon and hydro-fluorocarbons (HFCs) in the Russian Federation.

Table1 –Summary of NEFCO SLCP Project Initiative in NW Russia

| Project | EUR, Mio |
|--|----------|
| Project 1-M: Reduction of Methane Emissions Sub-pr*1.1-M-K Sub-pr. 1.2-M-L | 10 |
| Project 2-BC: Reduction of Black Carbon Emissions Sub-pr. 2.1-BC-K: Kostomuksha Sub-pr. 2.2-BC-K Nadvoitsy Sub-pr. 2.3 -BC-K Sortavala Sub-pr. 2.4-BC-K Suojärvi Sub-pr. 2.5-BC-K: 8 Karelian settlements with diesel power. Sub-pr. 2.5.1-BC-K :Valdai Sub-pr. 2.5.2 to 2.5.7-BC-K: The remaining 7 Settlements: Sub-pr. 2.5.8-BC-K Kemi Sub-pr. 2.5.9-BC-K Louhi Sub-pr. 2.6-BC-N Kolguyev Island Nenets Sub-pr. 2.7-BC-Komi: District Heating Upgrade in Komi Sub-pr. 2.8-BC-NWR: Assembly Plant for Special Transportation | 47-67 |
| Project 3-HFC: Mitigation of HFC Emissions Sub-pr. 3.1-HFC-NWR: Management of End-of-Life Equipment | 0,05 |
| Total (rounded off) | 57-77 |

*Sub-pr. = Sub-project

⁷ Report of the PPCOM Meeting (Draft), AC/PSI/PPCOM/R2; 2012.11.21

Consultation on the Election of Chairperson for the Arctic Council Project Support Instrument Committee (PCOM)

12. The PSI Guidelines (2005) and its Rules of Procedure (PSI-RoP, 2008) have been established by the SAOs in accordance with the Arctic Council Rules of Procedure (AC-RoP, 1998). One of the remaining items for operationalizing of the PSI, expected to take place in the first half of 2013, is the election of the Chairperson of the PSI Committee (PCOM).
13. According to the PSI-RoP, the PSI Committee is to elect one of its members to serve as a Chairperson commencing from its first meeting and the AC-RoP requires a consultation with the SAOs for selection of a chairperson and vice chairperson of an Arctic Council subsidiary body such as the PSI Committee.
14. During the 1st Meeting of the Preparatory PCOM (Helsinki, 6-7 June 2012) views were exchanged by the PSI Contributors on the matter of the PSI Committee's Chair and Vice-chair. It was inter alia considered that:
 - a. The Chair of the PSI Committee would be elected and the following Chairs would be elected on the basis of the alphabetical order of the Contributing Arctic Council States;
 - b. The Chair of the PCOM would be rotated on a one year basis between the Contributing Arctic Council States; and
 - c. To facilitate continuity and a smooth functioning of the incoming Chair(s), NEFCO might, during the pilot phase years, act as permanent Vice-chair of the PSI Committee or at least have secretarial functions to this effect.
15. In the context of consultations for election of the first Chairperson of the PSI Committee, NEFCO proposed to the PSI Contributors on the 15th of February 2013 that the Russian Federation is elected as the incoming Chair of the PCOM. NEFCO received endorsement of its proposal by the end of February and it informed the SAO Chair (Sweden) on the 4th of March 2013 of the Contributors' views in § 14 a)- c) above and of the development that the PSI Contributors have agreed to elect the Russian Federation to serve as Chair of the PSI Committee for one year beginning from the first meeting of the PSI Committee.

Action:

SAOs may wish to

- 1) Note with appreciation NEFCO's Update on the PSI to the SAO Meeting of March 2013;
- 2) Acknowledge the election of the Russian Federation to serve as Chair of the PSI Committee for one year beginning from the first meeting of the PSI Committee;
- 3) Invite other members of the Arctic Council that have not yet done so, to consider joining the PSI;
- 4) Encourage parties to deposit their contributions with the Fund Manager to enable the PSI to become operational during the earliest.

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| <i>Documentation:</i> None |
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